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SESSION 1929
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1—WEDNESDAY, 17th APRIL, 1929

WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1929

MEMBERS OF THE COMMITTEE

SIR EUGENE Fiset,
Chairman

Bell, L. G. (*St. Antoine*),
Cantley, T.,
Chaplin, Hon. J. D.,
Duff, W.,
Dunning, Hon. C. A.,
Geary, G. R.,
Gray, R. W.,

Hanson, R. B.,
Jelliff, L. H.,
Jenkins, R. H.,
McLean, M. (*Melfort*),
Milne, R.,
Power, C. G.,
Stevens, Hon. H. H.

JOHN T. DUN,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,

MONDAY, 15th April, 1929.

Resolved,—That Standing Order 63 of the House of Commons, relating to appointment of the Select Standing Committees of the House, be amended by adding to the Select Standing Committees of the House for the present session, a Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, to which will be referred the accounts and the estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and for report to the House, provided, however, that nothing in this resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said Committee consist of Messrs. Bell (St. Antoine), Cantley, Chaplin, Duff, Dunning, Fiset, Geary, Gray, Hanson, Jelliff, Jenkins, McLean (Melfort), Milne, Power and Stevens.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, 15th April, 1929.

Ordered,—That the Estimates of the Canadian National Railways and the Canadian Government Merchant Marine, laid on the Table of the House on Thursday, 11th April, instant, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, 17th April, 1929.

Ordered,—That 500 Copies of the proceedings and evidence of the said Committee be printed for the use of the Committee and of the House, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, 17th April, 1929.

Ordered,—That the said Committee be given leave to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS OF THE COMMITTEE

FIRST REPORT

WEDNESDAY, 17th April, 1929.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government beg leave to present the following as their First Report.

Your Committee recommend that 500 copies of their proceedings and evidence be printed for the use of the Committee and of the House, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

(Concurred in by the House, same day).

SECOND REPORT

WEDNESDAY, 17th April, 1929.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government beg leave to present the following as their Second Report.

Your Committee recommend that they be given leave to sit while the House is sitting.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

(Concurred in by the House, same day).

MINUTES OF PROCEEDINGS

ROOM 375, HOUSE OF COMMONS,

WEDNESDAY, 17th April, 1929.

The Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government met at 11 a.m.

Members present: Messrs. Cantley, Chaplin, Dunning, Fiset (Sir Eugene), Geary, Gray, Hanson, Jelliff, Jenkins, McLean (Melfort), Milne, Stevens.

In attendance: Sir Henry W. Thornton, President, Canadian National Railways, with members of his staff.

Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

On motion of Mr. Dunning,—

Resolved,—That Sir Eugene Fiset be Chairman of the Committee.

Sir Eugene Fiset took the Chair. He thanked the Committee for the honour accorded him, and expressed regret at the death of the former Chairman, Mr. Goodison. Regret was likewise voiced by Messrs. Dunning, Gray and Stevens, and by Sir Henry Thornton.

On motion of Mr. McLean (*Melfort*),—

Resolved,—That permission of the House be asked to have 500 copies of the Committee's proceedings and evidence printed for the use of the Committee and of the House of Commons.

On motion of Mr. McLean (*Melfort*),—

Resolved,—That the Committee ask permission of the House to sit while the House is sitting.

Copies of,—

- (1) Annual Report of the Canadian National Railway System for the year ended December 31, 1928;
- (2) Canadian National Railways System Analysis of 1928 Operating Expenses as Compared with 1927, were distributed to the members of the Committee present.

ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

The following items, appearing on pages 5, 6, 7, 8 and 9, were called for consideration, viz.: Gross Earnings. Operating Expenses. Maintenance of Way and Structures. Maintenance of Equipment. Transportation. Betterments. Flin Flon Line. Hudson Bay Railway. Hotels. Wages and Labour. Montreal Terminals. Alberta Railways. Finance. Traffic. Telegraphs. Insurance. Colonization.

With respect to the item, Hudson Bay Railway, Mr. Dunning agreed to submit a statement to the Committee at a later date.

At 1 p.m. the Committee adjourned until to-morrow, Thursday, 18th April at 11 a.m.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

ROOM 375, HOUSE OF COMMONS,

WEDNESDAY, April 17, 1929.

The Select Special Committee on Railways and Shipping met at 11 a.m.

The CLERK OF THE COMMITTEE: Gentlemen, the meeting will please come to order. The first item of business is the selection of a chairman to replace the late Mr. Goodison. Nominations are in order.

Hon. Mr. DUNNING: Mr. Secretary, I think it would probably be the desire of the committee to place on the record the fact that every member here feels very keenly at this moment the loss of our former Chairman, Mr. Goodison, the member for West Lambton. His death is the reason for our requiring to elect a new chairman at this time. No one feels the loss of Mr. Goodison as a fellow member of this committee and its chairman more keenly than I do. I know his services were appreciated by all the members of the committee, and by the president and the staff of the railways as well. It is now necessary to nominate a new chairman, and I have pleasure in nominating Sir Eugene Fiset to act as chairman of this committee.

(Carried).

(Sir Eugene Fiset having taken the Chair).

SIR HENRY THORNTON: I would like to have the privilege of the committee in placing on record the loss which we of the railway company feel in the unhappy death of Mr. Goodison. The officers of the railway and myself are fully in accord with everything the Minister (Hon. Mr. Dunning) has said. I would like to add that we in our dealings with this committee found him always fair and efficient, and we deeply regret his loss.

Mr. GRAY: Mr. Chairman, before proceeding with the order of business, may I say that it is with mingled feelings that I take my seat on this committee. I appreciate the high honour conferred upon me in being selected to take Mr. Goodison's place, in a very humble way, on this very important committee. May I thank the Honourable Minister of Railways (Hon. Mr. Dunning) and the President of the Canadian National Railways (Sir Henry Thornton) for the very kind words they have spoken in respect of Mr. Goodison. I feel his loss very very keenly and from what you gentlemen have already said, and the expressions I have heard in the corridors of this building, I know he is missed in this House very much indeed. I thank you and the committee for what you have said to-day.

The CHAIRMAN: Honourable Mr. Dunning, Sir Henry Thornton, and gentlemen of the committee: I must confess that it is with fear and trembling that I dare to accept the high honour of the chairmanship of this committee, more especially so when I remember that I am replacing, as chairman of this committee, one of the most popular members of the House of Commons, whose sad death we all regret. While not long in the House Mr. Goodison was rapidly becoming one of its most distinguished members and his sterling personal qualities, his character and his genial personality made him an ideal chairman for such an important committee as this. I am quite sure that I am but voicing the wish of the members of this committee, as my first official act, in suggesting that a resolution of condolence expressing our deep regret and sympathy be sent to his wife and family.

[Sir Henry W. Thornton.]

Hon. Mr. STEVENS: I can assure you, Mr. Chairman and gentlemen, that no one feels more deeply than I the loss of my old friend Mr. Goodison, whom I counted as one of my personal friends, as well as an associate on this committee. I hesitate greatly in intervening with any suggestion in regard to the Chairman's proposition. Normally I would be heartily in accord with it, but inasmuch as his regrettable death occurred some two or three months ago, and as the House of Commons has already passed a resolution of condolence, may our action not reopen an old sore and bring forcibly to mind again in the great loss which his family have sustained. I appreciate fully the gracious spirit in which our chairman's words were uttered, and I would earnestly suggest that if such an action as proposed is taken, it be taken in the most delicate way.

Hon. Mr. DUNNING: May I also at this time express what I feel to be the sentiment of every member of this committee in placing on record our deep regret at the passing of my late associate, Major Graham Bell, the former Deputy Minister of the Department at present under my jurisdiction. Major Bell was a faithful attendant at the meetings of this committee, his relations with the National Railways were friendly in the extreme and in addition to the personal loss which I feel at his passing, I miss very greatly his wise counsel and assistance in carrying on the work of the Department.

Mr. HENRY: May I be permitted to express my full accord with the remarks of the Minister (Hon. Mr. Dunning). I feel a great personal loss in the passing of Major Bell. While connected with the National Railway my relations with him were always pleasant and he was of great assistance to us in the problems we placed before the department. The high standard which he established in his work convinced me that it will require all of my efforts to even approximate, although the work is made easier by the manner in which he left the affairs of his department. I am glad to acknowledge the kindly assistance and advice which is being given to me by the Minister (Hon. Mr. Dunning), in endeavouring to carry on the work of my late friend, whose passing I so much regret, Major Graham Bell.

The CHAIRMAN: Generally at our first meeting we move to ask the House for the necessary authority to print the proceedings of this committee and also for leave to sit while the House is in session. Will one of the members make those motions?

Mr. McLEAN (Melfort): I so move, Mr. Chairman.

Mr. GEARY: I am quite agreeable, if we find it necessary to sit while the House is in session.

Hon. Mr. DUNNING: We rarely have, in fact, used the privilege, but we ask for it in case we find it necessary.

The CHAIRMAN: Gentlemen, in the past at our first meeting it has been the practice to ask Sir Henry Thornton to give us a general statement, and it is my pleasure now to call upon him to give us such statement.

Sir HENRY THORNTON: Mr. Chairman and gentlemen of the committee: It is a pleasure to greet you all again. The annual meeting of the officers of the railway with this committee has come to be interesting, useful, and indeed pleasurable.

With respect to the operations of the last year I would first like to call your attention to the fact that the annual report is published for the year 1928, and meets some of the criticism expressed at the meetings of the committee last year, with respect to the way in which the Eastern Lines Account and the System Accounts were shown. The report this year shows, first, the main report which represents the Canadian National Railway System excluding the Eastern Lines; at the back of that report will be found the financial performance of the Eastern Lines themselves, as an integral unit, and following that will be found the

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financial performance of the system as a whole including the Eastern Lines, so that the members of the committee have first, the railways as a whole, excluding the Eastern Lines, and then the consolidation of the two.

Mr. GEARY: The white pages show the Canadian National Railway, including the Eastern Lines?

Sir HENRY THORNTON: No.

Mr. GEARY: I thought not, but I understood that was what you said.

Sir HENRY THORNTON: The white pages represent the Canadian National Railways excluding the Eastern Lines; immediately following that you will find printed on yellow sheets, the Eastern Lines, with the financial performance with respect to that part of the system, and following that printed on blue sheets will be found the combined Income statement. Does that make it clear, Mr. Geary?

Mr. GEARY: I understood that, but I thought you said in your last remark—

Sir HENRY THORNTON: I may have made a slip of the tongue.

Mr. HANSON: Sir Henry (Thornton), I am a new member of this committee and for my personal information I would like to know why this system has been followed in the past. The Eastern Lines are an integral part of the National system, as much as the Central Lines and the Western Lines, but because they end nowhere—at Levis—we in the maritime provinces feel that this system of accounting is not quite fair to that community. I have discussed that with some of your officers and they agree with me, and it is a rather sore spot with the maritime provinces. But for the moment I am simply asking for information.

Sir HENRY THORNTON: We felt last year in preparing the report that since certain reductions had been made in certain rates which seriously affected the financial performance of the railway and that the deficit caused thereby was to be made up by governmental contribution, in order not to distort or give an opportunity for incorrect deductions to be drawn, we were quite justified in showing the performance of the railway system as a whole, but excluding the Eastern Lines. At the meeting of the committee last year Mr. Stevens brought that question up and it was discussed at much length. After the debate in the committee and having regard particularly for the reasons advanced by Mr. Stevens, we of the Railway came to the conclusion that he was justified and right in making that criticism, and that we would show the figures this year three ways, the railway excluding the Eastern Lines, the Eastern Lines, and the two combined. Those are the only three ways we can show it. If you can show us a fourth we will be willing to do it.

Mr. HANSON: That is a complete answer to my question. It was only information I was after.

Sir HENRY THORNTON: The report for the year which has just passed represents by far the most satisfactory year which the system has experienced, both from a financial and an operating point of view. The figures speak more eloquently than any words of mine. It may perhaps be of interest to you to know that last year out of every dollar, there was available for interest 17.64 cents. As a matter of interesting comparison, consider the class 1 railways of the United States, which represent the larger railway systems in that country. The total amount available for interest was 15.21 cents. The comparison which I have given to you compares the Canadian National Railway in 1928 with the class 1 railways in the United States for 1927. We were obliged to use 1927, because the statistics for the American railways for 1928 are not available, but 1927 was an extremely prosperous year in the United States; the railways did extremely well, and there is no injustice to either side in drawing a comparison between the two years.

I think from a national point of view—and by that I do not mean the Canadian National point of view—that it ought to be of some satisfaction to

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know that the system of the Canadian National Railway earned more available for interest than the class 1, or better class, railways, within the United States, having regard to the fact that a good part of our mileage is still in a development stage; that is to say, traffic has not yet caught up with the mileage we have built to open the country. I think from a Canadian point of view the comparison is a good one.

Gentlemen, we have prepared an analysis of the 1928 operating expenses as compared with 1927. This is the same character of analysis as was prepared last year. It is intended to put on paper the particular points with respect to which questions might arise, and with the approval of the committee I would like to distribute copies of that to each member. It is a difficult thing to follow if read, because there are a great many figures and statements involved, but it may be well used, as I think was the case last year, as the basis for discussion. Is it the pleasure of the committee, Mr. Chairman, that these copies should be distributed?

The CHAIRMAN: Certainly, Sir Henry.

Hon. Mr. STEVENS: Will that be an analysis of the statement on page 21?

Sir HENRY THORNTON: It is an analysis of the expenses. Let us see what page 21 says. (Referring to page 21). No, it is an analysis of all the expenses. Page 21 is merely the railway operating expenses. What I meant when I said, "Operating expenses", was maintenance of way, maintenance of equipment, transportation, and the general traffic expenses.

Mr. HANSON: There is no question but that the country is quite delighted with the figures which your statement reflects. There is, however, one point about which I am a little uncertain. Is that statement the result of increased tonnage on your own lines, due to the increased tonnage and passenger traffic in the country as a whole, or is it at the expense of the other Canadian national railway?

Sir HENRY THORNTON: I am very glad that you asked that question, because it is frequently said—but inaccurately,—that the Canadian National Railway is taking traffic from the other great Canadian railway, the Canadian Pacific. That statement is not correct. Naturally both railways strive to secure all of the traffic they can one from the other. That is a good thing in the interest of the country, and in the interest of the public, but if you will examine the net returns of the Canadian Pacific Railway since the Canadian National Railway came into existence as an entity, you will find that the net returns of that company, have progressively and largely increased. For example, last year the net returns of the Canadian Pacific Railway exceeded any year, excepting two of the war years, which were, of course, quite unusual years. Am I right in that, Mr. Thompson?

Mr. THOMPSON: Yes, they reached a record last year.

Sir HENRY THORNTON: Was that more than any other year?

Mr. THOMPSON: Yes, more than any other year.

Sir HENRY THORNTON: Therefore, I should say, if I were a Canadian Pacific officer, that the Canadian National Railway was a great asset to the Canadian Pacific. I would likewise say, as a Canadian National officer, that I regard them as an asset to us.

Mr. CANTLEY: Then suppose you improve your position in Nova Scotia by bringing them down there.

Sir HENRY THORNTON: We have not yet become a Christmas tree.

Mr. HANSON: That remark is slightly ambiguous. You can take three or four different meanings out of that.

Sir HENRY THORNTON: That is the only safe statement to make.

[Sir Henry W. Thornton.]

Mr. GEARY: I suppose you would like a few gifts off the Christmas tree?

Sir HENRY THORNTON: Blessed is he who receives, as well as he who gives. I think as far as relations between the two companies are concerned it is a good arrangement and is working satisfactorily. We have our little "dust-offs" from time to time, but they are rather amusing and generally enjoyable.

Now, with respect to this statement which has now been distributed, is it the wish of the committee, Mr. Chairman, that we should take that item by item, or do you prefer to go through the items of the annual report? I think you will find everything here that is in the report. This analysis was designed to help the members of the committee in their criticism and comment.

Hon. Mr. DUNNING: With regard to that point: It will be remembered that last year we went through the analysis first, and the analysis became then a part of the printed record so that it was more easy of access to the members of the House generally. Then, following that, having gone through the analysis, we found the work of going through the accounts themselves very much simplified. personally I think that course was satisfactory to all of us, inasmuch as it made the analysis itself a part of the permanent record and available to the members of the House generally. I have no particular reason other than the convenience of the committee for proposing that we follow that course.

Hon. Mr. STEVENS: I would like to make one suggestion and I do not make it in any dogmatic attitude, but would it not be well first to run through Sir Henry Thornton's report to the Minister, (Hon. Mr. Dunning) then the president's report, and then go into the details? What I am a little afraid of is that we will get into the details which are exceedingly complicated and yet away from one or two of the main points upon which, personally, I would like to get a little explanation from Sir Henry.

The CHAIRMAN: I think it will be much better to let Sir Henry complete his statement and then ask questions of him afterwards.

Sir HENRY THORNTON: As a matter of fact, Mr. Chairman, my statement really consists of the few words I have said, plus this analysis.

Hon. Mr. DUNNING: The analysis is really your statement?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: Is it the pleasure of the committee that we should proceed first with an examination of the analysis?

Mr. GEARY: Mr. Chairman, it strikes me that the report contains both sides of the ledger, the revenue and the expenses, and the different main items with which Sir Henry is dealing, but only one of those subdivisions is covered by this analysis.

Sir HENRY THORNTON: This is only intended to cover what we call "Operating expenses".

Mr. GEARY: I think if we had a general view of this thing first and then go into the items of operating expenses, we would be better off.

Hon. Mr. DUNNING: Probably that would be covered by Mr. Stevens' suggestion, if first we would have the report of the president (Sir Henry Thornton) to the Minister, (Hon. Mr. Dunning). Previously we have found the analysis much more intelligible than by going over every page of the report without it.

Hon. Mr. STEVENS: I quite agree with the Minister (Hon. Mr. Dunning), but I would like to ask a few questions on this report, which I can do forthwith if it is the desire of the committee.

Hon. Mr. DUNNING: On the report of the Minister?

[Sir Henry W. Thornton.]

Hon. Mr. STEVENS: Yes. I will not ask Sir Henry Thornton to read this long statement, and I am not suggesting it should be read.

Sir HENRY THORNTON: I think the report has been before the members for a long time. I am willing to have it read, but perhaps the best way to do would be to take the headings of the paragraphs, and at the proper time to touch upon any point which any member of the committee wishes to bring up.

Hon. Mr. STEVENS: There are three or four points I want to ask some questions about.

Sir HENRY THORNTON: Shall I begin, Mr. Chairman? "Gross Earnings"—

Hon. Mr. STEVENS: I notice under that heading the following:

The great volume of traffic was to a large extent due to the heavy Western crops of the last two years; and to bad weather conditions and a late harvest in 1927 which left a large carry over of that year's crop for 1928; also to the good weather conditions of last fall and an early harvest which enabled an unusually large proportion of the 1928 crop to be carried to terminal elevators in that year.

That would indicate a substantial increase in the earnings from freight, which is reflected in the earnings statement, was due to the abnormal conditions, and I am asking this question, in the light of our provisions for the coming year, if you anticipate a falling off during 1929?

Sir HENRY THORNTON: Mr. Stevens, there is nothing so uncertain to estimate as to what the annual crop each year will be. We have to look at it over a longer period of time than simply one year. We do find that, taken over a period of years, the annual crop production of Canada has materially increased. We feel quite confident that that increase will continue progressively for the next—I do not know how many years; several decades. Last year we had an exceptionally large crop due to favourable weather conditions. What the crop will be this year I do not know. I do not think anyone can say. It will depend a great deal on how much rainfall we get in June and July.

Hon. Mr. DUNNING: There is one point upon which a comparison can be made, and that is the relative carry-over.

Sir HENRY THORNTON: I was coming to that. There is a relative carry-over, and that increases each year as the crop increases. Now, I do not know whether this has any bearing upon it or not: I am inclined to think it has, but as I think I mentioned last year in investigating the water levels of the Great Lakes, the investigators have found that those levels rise and fall in cycles of about sixty years. You will have a cycle of low water and then move into a cycle of high water, and from peak to peak and depression to depression is about sixty years. The waters of the Great Lakes can only come from one source, as I see it, and that is from the rainfall. Therefore, it would seem reasonable to assume that the rainfall may vary in some such cycle.

Mr. CANTLEY: And snowfall as well?

Sir HENRY THORNTON: What I really mean is precipitation, both rain and snow. We might argue from that—and some evidence advances the theory—that inasmuch as we are now coming into a wet cycle—

Hon. Mr. CHAPLIN: We have only this record for a certain time.

Sir HENRY THORNTON: I am only telling you what the investigators have developed. Whether it is true or not, I don't know, but it looks as if there were something in it. It looks as if we were now in what might be described as a wet cycle, and that will mean a protracted period of abundant crops on the prairies, and in the basin tributary to the Great Lakes. This is merely presented for what it may be worth. We do find, however, that our crops unquestionably vary, as you know, with the weather conditions, and in answer to

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your question, Mr. Stevens, I would say that we anticipate the results of past years will support the supposition that our grain production in Canada will annually and materially increase. There may be some years when it may be a little better than others, or a little worse, depending on weather conditions, but taking over a period of years I think there will be found to be a progressive increase in Canadian grain production and also the constant breaking of new acreage will have an effect, because each year there is a certain amount of new acreage coming under cultivation.

Mr. HANSON: That is the hope of the railways, and I think of the country.

Sir HENRY THORNTON: I think you can put it down as more than a hope; I think you can take it as a certainty.

Hon. Mr. STEVENS: What portion of the revenue was from the wheat crop?

Sir HENRY THORNTON: I will ask Mr. Fairweather to look that up.

Mr. FAIRWEATHER: We cannot answer that, right off the bat; we can make an estimate of it.

Hon. Mr. STEVENS: Turn to page 32 and you will find the tonnage, products of agriculture, in round figures, \$14,000,000; products of animals, \$1,450,000; products of the mines, \$21,000,000; and products of the forest, \$10,000,000, manufactured articles, \$18,000,000, and so forth.

Sir HENRY THORNTON: Is your question as to the percentage of gross freight earnings of the Canadian National Railway which may be, charged to products of the soil?

Hon. Mr. STEVENS: Yes, in the light of this statement that the great bulk of the traffic was due to the heavy western crops.

Sir HENRY THORNTON: Do you want it in tons or revenue?

Hon. Mr. STEVENS: In revenue.

Sir HENRY THORNTON: Let me understand that question. You want in money the gross revenue which accrued to the company through the movement of products of the soil, or do you want it limited to wheat?

Hon. Mr. STEVENS: No, I simply want an elucidation of that item.

Sir HENRY THORNTON: Products of the soil?

Hon. Mr. STEVENS: Yes.

Sir HENRY THORNTON: All right, we will have that looked up.

Hon. Mr. STEVENS: Really, Sir Henry (Thornton) I did not expect to put you to any trouble—

Sir HENRY THORNTON: We are here to provide you with what you want.

Hon. Mr. STEVENS: I see on pages 32 and 33 an analysis of tonnage, and I thought it would be a simple matter to interpret that in dollars. I suppose I can answer my own question, if I took the tonnage—less than twenty-five per cent.

Sir HENRY THORNTON: The products of agriculture represent about 22.41 per cent of the total tonnage.

Hon. Mr. STEVENS: How is that reflected in revenue?

Sir HENRY THORNTON: That is a little difficult to say, because there are all kinds of products of agriculture in that at different rates.

Hon. Mr. STEVENS: The main portion is wheat?

Hon. Mr. CHAPLAIN: The percentage of earnings runs very much the same as the percentage of commodities?

Sir HENRY THORNTON: No, you cannot say that with certainty. For instance, the production of manufacturers would run very much higher per unit.

[Sir Henry W. Thornton.]

Hon. Mr. DUNNING: A partial answer is contained in the analysis? Oh, I see, it is in your broad analysis.

Sir HENRY THORNTON: This may throw some light upon your question: "The western region shows an increase in grain amounting to \$9,000,907; over \$4,000,000 of this amount is on the grain carried over from the previous year.

Hon. Mr. STEVENS: What is the total amount of grain?

Sir HENRY THORNTON: From the western region alone \$9,000,907.

Hon. Mr. STEVENS: What is the total?

Sir HENRY THORNTON: We will have to get that.

Hon. Mr. DUNNING: Grain moves in many directions.

Hon. Mr. STEVENS: I am at a loss to know why the question should be so embarrassing.

Sir HENRY THORNTON: You asked us to tell you in dollars what the revenue is from a certain tonnage of grain. That takes all kinds of rates and grain moved to all sorts of places, and it is an extremely complicated and difficult thing to work out.

Hon. Mr. STEVENS: Would it be a fair statement to say that in tonnage the amount carried of agricultural products, including grain, is about 22 per cent of the total?

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: Then in view of the fact that the manufactured articles run into eighteen million tons, and carry relatively a much higher rate than the agricultural products, particularly wheat, is it correct to say that the ratio of revenue from agricultural products would be somewhat less than twenty-two per cent of the whole?

Sir HENRY THORNTON: Another thing you have to consider in that connection is that the average haul on manufactured articles is very much less than the average haul on the wheat, and that is an important factor, because the most remunerative traffic is the long haul traffic, although that depends in turn upon the rates.

Hon. Mr. STEVENS: The manufactured articles tonnage is very large too?

Mr. GEARY: Yes, but it does not reflect anything until you get your car miles.

Mr. HANSON: The haul of wood pulp is fairly large?

Sir HENRY THORNTON: Yes. The movement of a ton of pulp to Chicago would be very remunerative traffic, much more per unit than the movement of x-bushels of wheat.

The CHAIRMAN: Do you require that statement to be prepared for the next meeting, Mr. Stevens?

Mr. HANSON: They will give us the statement.

Sir HENRY THORNTON: Let me again try to find out what you want. You want the revenue accruing from products of the soil? We can make an estimate of it, Mr. Stevens.

Hon. Mr. STEVENS: Yes, to interpret that statement.

Sir HENRY THORNTON: We can make an estimate. It will not be accurate, but it will be sufficiently accurate for your purpose. Nobody can get it any closer.

Mr. HANSON: On pages 32 and 33 of your statement there is a comparative statement of revenue tonnage by commodities, and it is divided into five headings. Perhaps we could have an approximation in dollars and cents, of what the revenues were in money from those particular five headings?

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: We cannot get it. We can make a stab at the products of agriculture, but the other would be an extremely large order.

Mr. HANSON: All right.

Mr. GEARY: The Minister (Hon. Mr. Dunning) was dealing with the question of carry overs of grain. Have you got that ready for 1926, 1927, and 1928?

Hon. Mr. DUNNING: There is an approximation, yes; four million dollars of the increase was accounted for by the previous crop.

Sir HENRY THORNTON: The total increase in grain revenue in the western region—and I am speaking only of that—was roughly \$10,000,000. Of that increase \$4,000,000 was accounted for by the carry over from the previous year.

Mr. GEARY: The 1927 crop?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Have you got the 1926 carry over?

Sir HENRY THORNTON: We have not that here.

Hon. Mr. DUNNING: The question which produced that is the relationship of the present carry over from 1928 to 1929, and is the one to which Sir Henry (Thornton) is now referring. My impression is it is about as much, if not more.

Mr. HANSON: I understood him to say that the carry over was more or less constant in relation to the gross crop?

Sir HENRY THORNTON: No; I cannot say that. A late year always brings in a carry over.

Mr. GEARY: May I follow that for a moment. Mr. Dunning may know better than Sir Henry about that. The statement was made that the carry over depends on the size of the crop. Is that accurate?

Hon. Mr. DUNNING: No, it is not. The only factor is that a late crop might have a larger carry over than an early crop.

Mr. GEARY: How many bushels of grain were left in the elevators last August?

Hon. Mr. DUNNING: I cannot answer that.

Mr. GEARY: It had to be shipped out quickly to give room for the incoming crop?

Hon. Mr. DUNNING: The progress of marketing does affect it in some years, but only rarely. Usually the terminals are in shape to receive the new crop. Very seldom is the carry over a blocking factor.

Mr. GEARY: Would that be because the carry over in August is sacrificed in order to make room?

Mr. HANSON: No, not necessarily.

Hon. Mr. DUNNING: Only rarely; most of it is sold for future delivery long in advance.

Mr. McLEAN (Melfort): I think the press this morning reported there was more grain in store now than last year; the carry overs are bigger than last year.

Sir HENRY THORNTON: There are a great many different elements which enter into a grain movement, and among the difficulties in estimating the value of the movement are unexpected factors which vary from year to year.

Hon. Mr. DUNNING: There is very little difference between us, Mr. Geary. When I referred to the carry over in the first place I referred to it from the railway point of view as from January 1st to January 1st. I was not referring to the crop carry over which occurs during the middle of the railway year.

[Sir Henry W. Thornton.]

Mr. GEARY: Was that due to the pressure of the railway not being able to move the crop?

Hon. Mr. DUNNING: No, it arose from several conditions. If there is a heavy crop, then the physical capacity of both railways is taxed to the utmost to get it down to the head of the Lakes before the close of navigation. The tendency after the close of navigation on the Lakes is for it to pile up in the terminals placed at the head of the Lakes and move no farther. There is a certain amount goes forward to Halifax and St. John, and there is a constant movement westward to the Pacific; but from the railway point of view there is a tendency for some corporations to store their grain in their own country elevators as far as possible, because under circumstances which prevail in most years it is a cheaper form of storage than at the head of the lakes or elsewhere. Consequently, the carry over to which I refer is a carry over still in the farmers' hands or in the country elevators on the first day of January in any year. May I ask, Sir Henry, are you not of the opinion from the reports that the carry over on the 1st of January, 1929, was approximately equal, if not greater, than the carry over from the point of view which you had on the 1st of January, 1928?

Sir HENRY THORNTON: I would say it was rather greater, without looking up the statistics.

Hon. Mr. DUNNING: That has an important bearing on Mr. Stevens' question. Probably the carry over could be estimated.

Sir HENRY THORNTON: We can find that out, if you would like to have it. Now, "Operating Expenses."

Mr. GEARY: Were there any adjustments of freight rates in 1928 which accounted for an increase or decrease in the gross earnings?

Sir HENRY THORNTON: General order 488 effective September 12th, 1927, which reduced the grain rates in western Canada to Port Arthur and Fort William to C. P. R. main line basis, and grain rates to Vancouver and Prince Rupert for export, were reduced to the lakehead basis. These reductions reduced our revenues by \$780,000 for the period January 1st, 1928 to September 11th, 1928. After September 11th, both years, the rates were the same. In the same way there was a reduction on rates on grain from lakehead to Quebec, and on the traffic which moved over this route in February and March, 1928 there was a reduction of \$64,000. This is the first time the railway has to any extent moved grain over the northern route via Cochrane. The rate from Fort William to Quebec was reduced from 34½ cents to eighteen point three four cents per hundred pounds, while the rate to Halifax remained at 35½ cents per hundred pounds. There were also reductions in distributing rates effective September 12th, 1927, which resulted in a loss of \$64,000 for the period January 1st to September 12th, after which date the rates were the same in both years.

The reduction of our revenue due to decreased freight rates was \$908,000.

Mr. GEARY: None of it was reflected—

Sir HENRY THORNTON: Before you compare 1928 with 1927 rate reductions, subtract from our gross in 1928 \$908,000. Does that answer your question?

Mr. GEARY: Yes, thank you. We will take the expenses later on.

Mr. McLEAN (Melfort): Are there any increases to balance that?

Sir HENRY THORNTON: No.

Mr. GEARY: What is your miscellaneous item in revenue?

Sir HENRY THORNTON: I do not know just to what you are referring. Those represent the International Bridge Company tolls, the Victoria Jubilee Bridge tolls, fuel stations, wharf dockage, labour and handling.

Mr. GEARY: No investments?

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: That is only expenses you are reading; that is not revenue. The revenue from the International Bridge Company was \$350,000; from the Victoria Bridge, \$448,000. Those are the two particular items.

Hon. Mr. STEVENS: You have an item of \$16,000,000 in that miscellaneous.

Sir HENRY THORNTON: I am only explaining the increase. Mr. Geary asked what we represented by miscellaneous earnings. That appears on page 18 of the report. That represents everything excepting accounts 101, 102, 106 and 107.

Hon. Mr. DUNNING: It includes telegraphs and dining cars and all that kind of thing. There are only five items on the first page, and miscellaneous represents the summarizing of most of them.

Mr. GEARY: Your account numbers are the Dominion Bureau of Statistics, or are they the Interstate Commerce Commission's numbers?

Sir HENRY THORNTON: We use the Interstate Commerce Commission's numbers. They are the same in Canada.

Mr. GEARY: Practically the same classification.

Sir HENRY THORNTON: Exactly the same classification. We will now go on to quote Maintenance of Way and Structures, Maintenance of Equipment, Transportation and Betterments—

Mr. HANSON: Before we leave these headings "Maintenance of Way and Structures" and "Maintenance of Equipment": Is the increase there the standard increase for the year, having regard to your mileage, or what is it based upon?

Sir HENRY THORNTON: You are speaking of Maintenance of Way and Structures?

Mr. HANSON: There is a standard and an obligation every year to keep up to a certain standard—sometimes that is deferred?

Sir HENRY THORNTON: There is no obligation. It is the part of good judgment and good business to maintain the railway at the standard which the character of the traffic requires, and from year to year to improve that standard as the traffic demands.

Mr. HANSON: Raise up the standard?

Sir HENRY THORNTON: Yes.

Mr. HANSON: I suppose you know there is a certain amount of criticism in the maritime provinces in regard to maintenance of way?

Sir HENRY THORNTON: I have not heard of it.

Mr. HANSON: You have not travelled over your branch lines down there?

Sir HENRY THORNTON: Oh yes I have.

Mr. HANSON: You have probably not travelled over the bumps.

Sir HENRY THORNTON: Bumps are not unusual in the maritimes.

Mr. HANSON: There is a saying that the railway is not being kept up.

Sir HENRY THORNTON: As a matter of fact the standard of the main lines in the maritime provinces has been very materially improved in the last six years.

Mr. HANSON: I think some of the criticism is due to the fact that you are using heavier equipment.

Sir HENRY THORNTON: We have materially improved the standard of the main lines. Now, with respect to branch lines, that is a matter of judgment. It is obviously foolish to maintain a branch line over which there is a light and probably infrequent traffic at the same standard as the main line. That is one of the things in respect of which we are paid to use our judgment.

[Sir Henry W. Thornton.]

Mr. GEARY: I suggest these questions might be more readily taken up when dealing with expenditures. Is any of that deferred, or just the current expenditures?

Sir HENRY THORNTON: There is nothing deferred. It is all current. What usually happens on every railway is if you happen to get a good year you naturally take advantage of that year and spend as much as you think your purse will permit, but if you get a bad year, you economize. That is done in every business.

Mr. HANSON: That is an absolutely true statement. That is ordinary common sense.

Hon. Mr. DUNNING: As a matter of fact, if you are hauling more freight over the road and getting more out of it, you have to spend more in order to be able to do it.

Mr. GEARY: The road is never cramped then as long as it can reasonably maintain its way?

Sir HENRY THORNTON: When the consolidated management took hold of the railway we found that the maintenance of certain parts of the main line, not only in the maritimes but in the west and everywhere, was below the standard I thought it ought to be, and we have year by year extended ourselves financially to try to catch that up. For instance, if you take the road from Lucerne to Prince Rupert, it was badly in need of both ballast and ties six years ago, and on certain parts of the road you could not run a passenger train at a higher speed than fifteen miles per hour. That had to be brought up to standard. The same thing was true with other parts of the railway. Then there was a question of stone ballast between Montreal and Toronto and straight through to Chicago. The thing has to be done, and we are doing it as rapidly as we can. It cannot be done in a year, but it must be done.

Mr. GEARY: During the last four or five years there has been no conscious let up in the maintenance of way?

Sir HENRY THORNTON: I would say it is just the reverse; we have spent more than perhaps we should in some ways, because I felt the necessity for improving the character of the track.

Hon. Mr. DUNNING: That improvement is visible all over the system.

Hon. Mr. STEVENS: No doubt about it; no doubt in the world.

Sir HENRY THORNTON: We have now come down to Betterment. Then there is the Flin Flon line, to which reference is made; the Hudson's Bay railway—

Mr. GEARY: Will we get the Hudson's Bay railway in detail?

Sir HENRY THORNTON: No, you will not get that unless you raise it yourself. We will be glad to answer any questions you like to ask.

Mr. GEARY: You are working as an agent for the government in that?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Mr. Dunning, where can we get those expenditures?

Hon. Mr. DUNNING: In the House, in the usual way.

Mr. GEARY: In your estimates?

Hon. Mr. DUNNING: Yes. The amount expended on the Hudson's Bay railway was expended by the Canadian National as the agent for the Minister, and the House votes the money.

Mr. HANSON: They are a year old.

Hon. Mr. DUNNING: That is always true, but if there is any question about what the railway spent, the railway officers will be glad to give you that

information. But it is a government expenditure using the Canadian National as the agency through which the work is being done, and as the most economical way of getting it done.

Hon. Mr. STEVENS: Perhaps the Minister (Hon. Mr. Dunning) would have a complete statement prepared so we could get it rapidly in the House?

Hon. Mr. DUNNING: When I bring down my own estimates I will be glad to give you any information.

Mr. GEARY: It would be a convenience while Sir Henry (Thornton) and his officers are here if we could have that statement of expenditure.

Hon. Mr. DUNNING: I would suggest, if not inconvenient to you, after these accounts are cleaned up, if the committee wish to discuss that—it is not properly before this committee.

Hon. Mr. CHAPLIN: It will have a tendency to save time in your work.

Hon. Mr. STEVENS: Suppose you prepared a statement which we could have before us, upon which we could intelligently criticize or ask any questions desirable.

Hon. Mr. DUNNING: We can do that.

Mr. GEARY: In this committee?

Hon. Mr. DUNNING: We can do that.

The CHAIRMAN: The discussion to take place when we are through with the report.

Hon. Mr. STEVENS: It is not before the committee properly, but inasmuch as the railways are handling the funds we might strain the reference to the committee and incorporate that.

Sir HENRY THORNTON: We cannot include that in our report, because we are only the agents. The next item is "Hotels."

Hon. Mr. STEVENS: I noticed a very interesting hole in the ground when I was out on the coast at Easter. It seems to be rather a slow cry from a hole to a hotel. What is the progress on that?

Sir HENRY THORNTON: If you will watch the little seed grow, Mr. Stevens, you will find it will progress as rapidly as we can make it. We have no desire to delay it.

Hon. Mr. STEVENS: How are you getting along? I understand the plans are not ready.

Sir HENRY THORNTON: Yes, they are ready. There is no delay anywhere.

Hon. Mr. STEVENS: It will go right along?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (Melfort): How large a hotel will that be?

Sir HENRY THORNTON: Five hundred bedrooms.

Mr. HANSON: I notice this is a brief statement of what you have done in the past, but it does not give us much indication of the policy of the company with respect to the future. I mention this because since I left home quite a substantial agitation in my own little town has started for a hotel, and I expect they will be coming to see you.

Sir HENRY THORNTON: I have yet to find any community which is not pursuing the same course.

Mr. HANSON: I am warning you that a delegation is coming.

Sir HENRY THORNTON: I knew it was coming.

Mr. JENKINS: Have you anything to say with regard to the situation at Charlottetown?

Sir HENRY THORNTON: That will come up in the estimates.

Mr. GEARY: Whether they pay or not, I can testify to the fact that you run good hotels.

Sir HENRY THORNTON: We try to, but sometimes they are not as good as we would like to see them.

In the main, however, they are pretty well done. Jasper Park is becoming one of the talking points of the American continent. People go there from all over the country. Curiously enough, to illustrate that, I met a gentleman there last year, a very wealthy man from Philadelphia, who came to stay two weeks and stayed two months, and he said he was so pleased with Jasper Park that he intended to make some large investments in Canada, and I think he did.

Mr. GEARY: He probably had the room I wanted to get. Anyway, they do you pretty well there.

Mr. HANSON: Is the hotel department of the company a profitable undertaking?

Sir HENRY THORNTON: Taking it from its own earnings, it is not. We had a loss of \$135,000 last year, and that will come up in the analysis of expenses. It is not profitable by itself, but taking it in connection with the railway operation, I think it is a desirable thing to continue.

Mr. HANSON: Then there is the condition that your competitors are going strong.

Sir HENRY THORNTON: Very strong, and we are having some trouble in keeping up. The next item is "Wages and Labour," then the "Montreal Terminals."

Mr. STEVENS: I see that will cost \$50,000,000.

Sir HENRY THORNTON: I should think about that. It certainly would not exceed that.

Hon. Mr. STEVENS: Would there be any recovery from that?

Sir HENRY THORNTON: Yes, a very material recovery. We estimate that the revenue which will ultimately accrue from overhead rights not required for railway purposes will go a very considerable way toward paying the interest on the annual cost.

Mr. GEARY: Is the location finally determined upon?

Sir HENRY THORNTON: Yes, as far as we are concerned.

Mr. HANSON: Following up that thought in connection with revenue, will you elaborate on that a little, because that is a phase of the question which we do not know much about.

Sir HENRY THORNTON: I think it might be more properly taken up in connection with the consideration of the terminal itself.

Hon. Mr. DUNNING: Inasmuch as the subject has brought a resolution now on the order paper, which will undoubtedly result in the whole matter being referred to the General Railway Committee, we are not in a position to discuss something here which is not properly before the House.

Mr. HANSON: It is covered by this reference, and perhaps some of us would not have the opportunity of appearing before that other committee. However, I will not stress the point if there is an objection taken.

Hon. Mr. DUNNING: The only objection I would take is that the plan is not and cannot be before us properly; it is only a piecemeal way of getting at it.

Mr. HANSON: I suppose it is useless to hope for any joint terminal facilities in Montreal?

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: Not to prolong a discussion which might perhaps be more appropriate elsewhere, I can only say that as far as we are concerned, we are quite willing to welcome the Canadian Pacific Railway to a participation in our terminal.

Mr. HANSON: But it must be your terminal, and they say it must be their terminal.

Sir HENRY THORNTON: It is not a question of ownership; it is a question of what each railway wants to do. We have offered them under every reasonable safeguard the hospitality—if you want to put it that way—of our terminal. We will not use their terminal because it would be quite unsatisfactory, and also debar our giving to the public the service which we think the public needs.

Mr. GEARY: Are you having any difficulty in the Toronto terminal because of the joint arrangement?

Sir HENRY THORNTON: None whatever.

Mr. HANSON: Would not a joint arrangement be advantageous in Montreal?

Sir HENRY THORNTON: We are quite willing to make any reasonable arrangement with reference to participating in the use of our terminal, but the Canadian Pacific say: "No, we do not want to go into your terminal under any conditions."

Mr. GEARY: And you do not want to go into theirs?

Sir HENRY THORNTON: Not only don't want to, but I won't for the very simple reason that going into their terminal would restrict the service—

Mr. GEARY: I do not mean that, but I was speaking of the Toronto arrangement, where the stock is held fifty-fifty.

Sir HENRY THORNTON: That works quite satisfactorily. It is an arrangement in quite common use all over the world.

Mr. HANSON: The Grand Central in New York is an outstanding example.

Sir HENRY THORNTON: Not the Grand Central. I think that is owned jointly by the New York Central and the New Haven, and the other roads using it are tenants. On the other hand you have the St. Louis terminal used by some fifteen different railways.

Mr. HANSON: What about the Washington terminal?

Sir HENRY THORNTON: That is a joint terminal.

Mr. HANSON: Well, here is a huge expenditure of \$50,000,000 which might in part be avoided if these two railway systems could get together.

Sir HENRY THORNTON: This perhaps may not be the place to discuss it, but we feel that we have very good reasons for the position which has been taken. They will eventually all come out when this gets before the proper committee.

Hon. Mr. DUNNING: The objection is not to getting together; it is in regard to the facilities which each one feels it must have—physical facilities. It is not a question at all of whether there should be a union arrangement as such.

Sir HENRY THORNTON: No, and the further fact that each railway is laid out in such a fashion that one does not lend itself to the other.

Mr. HANSON: We had the same thing in a very small degree in the city of Fredericton where it would have been a fine thing if the two railways could have come into one station. Each was willing to take the other into its station, but neither would agree to go, and the result is that we have a duplication of

[Sir Henry W. Thornton.]

passenger terminal facilities within a distance of less than half a mile. There was strong objection taken on the part of the shippers who after all have to pay for it.

Sir HENRY THORNTON: I suppose the shippers could not get improved facilities for nothing.

Mr. HANSON: But when you have a duplication of facilities, you have to pay interest on them.

Sir HENRY THORNTON: So far as we are concerned, we are willing to make every arrangement to avoid duplication.

Hon. Mr. DUNNING: In fairness to both I think I have expressed to both managements remarks similar to those expressed by Mr. Hanson, and I think I can say for both railways that, taking Canada as a whole, there has been a marked advance in the effort to avoid expensive duplication during the past year. Both managements have responded in many parts of Canada. That is all to the good, but one cannot insist upon that under all circumstances and in all places.

Sir HENRY THORNTON: We now pass to "Alberta Railways"; "Finance".

Hon. Mr. STEVENS: Under the head of "Finance", I want to ask Sir Henry Thornton to give us a little light on two or three points. For instance, under the Appropriation Acts \$39,000,000 was voted last year, and I see there was an issue of \$35,000,000 of four and a half per cent forty year guaranteed gold bonds made for various purposes, approximately as follows: Expenditures for branch line construction and the Toronto viaduct scheme, \$13,500,000, and various expenditures under the 1928 budget of \$21,500,000. Will you give us an explanation of that twenty-one and a half million dollars for various expenditures?

Sir HENRY THORNTON: Perhaps I might mention some of the larger items. Well, there is one million five hundred thousand for new rails and fastenings, required to re-lay with heavier rails, and that represents the portion to be charged to capital. There is \$2,300,000 for tie-plates.

Mr. HANSON: Is that all capital?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Why?

Sir HENRY THORNTON: Under the accounting rules we must give it this number. Where we had no tie-plates before, the accounting rules say we must charge it to capital.

Mr. GEARY: You set up no depreciation fund for equipment?

Sir HENRY THORNTON: No, on the American lines we do, but not in Canada.

Mr. HANSON: This provides for no replacement of depreciated property but new property—where they did not have any property before?

Hon. Mr. STEVENS: You state that is under the accepted system of accounting chargeable to capital?

Sir HENRY THORNTON: Yes, and any additions to the property.

Hon. Mr. STEVENS: It might be used to improve the maintenance of way; it struck me as extreme to charge it all to capital.

Sir HENRY THORNTON: We have no recourse; that is the way it must be done. Then \$770,000 for a larger freight terminal; \$440,000 for a larger passenger terminal; \$744,000 for ordinary tracks and business sidings, and \$1,600,000 for subways, overhead bridges, and grade separations; \$1,473,000 for new locomotives and new shopbuilding; \$3,112,000 for additional telegraph lines and equipment of which a part was for the purpose of the Western Union lines

[Sir Henry, W. Thornton.]

in the maritime provinces; \$3,652,000 for additions to hotels and new hotels. There are a large number of items running from a few thousand dollars up to two or three hundred thousand.

Hon. Mr. STEVENS: And do I understand that all of these are capital expenditures?

Sir HENRY THORNTON: All of these are capital expenditures and must be charged to capital under the accounting rules.

Mr. HANSON: These are the Interstate Commerce Commission rules?

Sir HENRY THORNTON: Yes, and also the rules of our own Railway Commission.

Mr. CANTLEY: What does the acquisition of the telegraph lines in the maritime provinces amount to?

Sir HENRY THORNTON: \$1,103,000.

Mr. HANSON: That is the total purchase price, and has been paid?

Sir HENRY THORNTON: Yes.

Mr. HANSON: Why have you not taken possession?

Sir HENRY THORNTON: Since 1924, negotiations have been under way for the purchase of the land, line and facilities of the Western Union Telegraph Company in Nova Scotia, New Brunswick and Prince Edward Island. These negotiations were completed in 1928 and the property will be turned over to the Canadian National Railways as soon as the Western Union has finished its facilities for handling the cable business. It is expected that will be done some time in June 1929.

Mr. HANSON: You took over their staff?

Sir HENRY THORNTON: Yes, except the cable lines.

Hon. Mr. STEVENS: I note in the following paragraph the words "Funded debt". In view of the fact that the entire \$35,000,000 was used, why should it not be included in the funded debt?

Mr. COOPER: That portion was not used as of December 31st.

Hon. Mr. STEVENS: It says here that on December 1st, \$35,000,000 was issued, but there was a holdback of \$8,666,000, and I am asking why if the issue was made on December 1st it would not be reflected in the funded debt?

Mr. COOPER: There was an issue of \$35,000,000, but the arrangement with the underwriters was that they would only take the \$26,000,000 in 1928 and leave \$8,666,000 for 1929. They were actually outstanding, as far as our company was concerned, on December 31st; they were authorized but not issued.

Hon. Mr. STEVENS: That is not in harmony with the statement here. You have various expenditures in the 1928 budget, \$21,000,000, which takes up all the \$35,000,000; now how can you have the expenditure under the 1928 budget and the carry-over of half a million or more into the 1929 budget?

Mr. COOPER: We had not drawn the \$35,000,000 down; we had drawn \$21,000,000 down. We only take sums into our accounts as they are drawn down.

Hon. Mr. STEVENS: Is that statement which we were analyzing a moment ago incorrect?

Mr. COOPER: No we do not draw down money in advance of expenditures.

Hon. Mr. STEVENS: Leave that for a moment and turn to the next page, and I find there is an item of \$40,000 borrowed from the banks, just as you say, and there is the item for \$22,000,000, and the retirement of considerable debentures stock, which is of course quite all right; an expenditure incurred

[Sir Henry W. Thornton.]

during the nine months to December 31, 1927, of \$5,900,000. And an expenditure made under the 1928 budget of \$11,000,000 or \$40,000,000. And then it goes on to say that it is intended that during the present year, 1929, long-term financing will be arranged under which moneys provided by the bank, as above, will be repaid. Now you have arranged to take care of the 1928 budget. Then you say there are \$8,000,000 not yet drawn on that on December 31st.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And then you have \$40,000,000 here, part of it in 1928, expenditures made under the 1928 budget of \$11,000,000, and you propose to make an issue of \$40,000,000 securities to cover that.

Mr. COOPER: Yes, the \$40,000,000 is simply for temporary financing, and when it is replaced by permanent financing—

Mr. HANSON: I do not think Mr. Cooper has got Mr. Stevens' point yet.

Hon. Mr. STEVENS: Put it in this way, when you make the issue of \$35,000,000, why are you not reflecting that in the funded debt and showing available on the other side of the account, unexpended \$8,666,000

Mr. COOPER: Would you mind turning to pages 14 and 15?

Hon. Mr. DUNNING: I was wondering whether the eight millions was still in the temporary financing on December 31st?

Mr. COOPER: No, but in making the issue of \$35,000,000 those bonds are prepared and signed and placed in the delivery office; but our arrangement in this particular case, was that up to December 31st, there should be only \$26,000,000 actually taken up by the underwriters.

In our accounting we would create a liability \$35,000,000, and we would charge the underwriters with \$25,000,000 and we would show in existence the \$8,000,000.

Hon. Mr. STEVENS: Where would you show that \$8,000,000?

Mr. COOPER: In the balance sheet, counting for balance sheet purposes only the amount of securities in the treasury not issued at December 31st, would be deducted from the gross amount which was originally set up, the net amount of funded debt outstanding being simply the bonds which had been actually issued by the company and delivered, as at the date when the balance sheet was made out. If we had made a balance sheet of January 3rd, the whole \$35,000,000 would have been there.

Hon. Mr. STEVENS: You could have shown the \$8,000,000 as still in the hands of the underwriters, as an asset, if you liked?

Mr. COOPER: If you care, I will show you the regulations under which we work, which state what we should do in a case such as that.

Hon. Mr. STEVENS: Leaving that for a moment, and going to the \$40,000,000, is your \$8,666,000 carried over in any way reflected in this \$40,000,000 which you borrowed from the banks?

Mr. COOPER: No. The \$35,000,000 is permanent, while the \$40,000,000 is not. Out of the \$35,000,000 we got twenty-one and one half of the 1928 budget; and out of the \$40,000,000 temporary financing we got \$11,000,000 on the 1928 budget; that is \$32,800,000. Our operating results were so much better than the estimate that we probably did not spend it, and we will not draw down the full amount of the \$35,000,000.

Hon. Mr. STEVENS: Now, the \$8,666,000 you say, is in the hands of the underwriters?

Mr. COOPER: At Dec. 31st.

Hon. Mr. STEVENS: Not released?

[Mr. H. T. Cooper.]

Mr. COOPER: No, not then.

Hon. Mr. STEVENS: But the money for which that was issued was spent on this \$21,000,000 cited by Sir Henry a few moments ago, in the purchase of equipment, and so on?

Mr. COOPER: Yes, sir.

Hon. Mr. STEVENS: That was actually expended in 1928?

Mr. COOPER: But you will remember that it belongs to the full \$35,000,000.

Hon. Mr. STEVENS: I asked a while ago what that \$21,000,000 was, and Sir Henry gave us a long statement of expenditures included in the \$35,000,000. How could you have paid out the \$8,666,000 if the bonds had not been released by the underwriters and were still in the hands of the underwriters?

Mr. COOPER: I tried to explain that we do not spend money as it is released by the underwriters. We spend money in advance of its release by the underwriters.

Hon. Mr. STEVENS: Where is that reflected?

Mr. COOPER: In our general capital.

Hon. Mr. STEVENS: And it is not included in the \$40,000,000.

Mr. COOPER: In the \$40,000,000 there is \$11,000,000 of the 1928 budget.

Hon. Mr. STEVENS: Would that include the \$8,000,000.

Mr. COOPER: No, sir.

Mr. CANTLEY: I would like to ask if that \$8,000,000 is comparable with the amount on the next page?

Hon. Mr. STEVENS: No, that is another item.

Mr. CANTLEY: Is it a comparable item?

Mr. COOPER: I do not think you can tie the \$8,000,000 up against the 1928 budget at all. There is \$21,000,000 in the budget.

Mr. CANTLEY: Does the \$8,666,000 appear the next year in the same manner as the \$35,000,000 appears this year as expenditures made the year previously?

Mr. COOPER: No, I was trying to explain that the \$8,000,000 does not necessarily relate to the 1928 budget. Only \$21,000,000 was under the budget, and we had drawn down \$26,000,000. It is quite conceivable that we have drawn \$21,000,000 of the \$26,000,000 on account of the budget; and that the \$8,000,000 which we had not drawn down relates to the branch lines and terminals.

Hon. Mr. STEVENS: I took for granted that it did not relate to that, because that is under certain statutes?

Mr. COOPER: I think I am safe in saying that it does relate to the "Branch Lines and the Toronto Terminals", as distinct from the budget; because the Branch Lines and the Toronto Terminals have not been completed.

Mr. GEARY: What is the total of your 1928 budget?

Mr. COOPER: \$39,000,000.

Mr. GEARY: And that does not cover the Branch Lines Construction and the Toronto Viaduct?

Mr. COOPER: No Sir.

Mr. GEARY: And you have \$39,000,000 appropriated, of which you spent, say, \$8,000,000 less than \$21,000,000, that is about \$12,000,000 that you spent in 1928 out of your 1928 budget?

Mr. COOPER: Altogether we spent on the budget about \$31,000,000 or \$32,000,000. We financed that in this way, we had \$21,000,000 out of the \$35,000,000 bond issue, and we got so much from the banks. We made permanent financing on account of the 1928 budget of about \$28,000,000.

[Mr. H. T. Cooper.]

Mr. GEARY: Which one of those items, Branch Lines Construction, of the 1928 budget has not been expended.

Mr. COOPER: It is certain that the Branch Lines and the Toronto Terminals' program has not been accomplished.

Mr. GEARY: What you are holding out is \$8,666,000 on your Branch Lines and Toronto Terminals construction.

Mr. COOPER: Yes.

Mr. GEARY: And you are not charging yourself with that as funded debt until you take it up?

Mr. COOPER: Until it is actually issued.

Sir HENRY THORNTON: I might say that the state of the money market was such that it would have been inadvisable to have gone into the market with any issues of a considerable size, and we thought it preferable to arrange temporary financing at such a rate of interest as we could get, and wait to make our permanent issues until the money market was such as would permit us to borrow at a lower rate of interest. Everybody does that. It was much better to pay a little higher rate of interest for twelve months than to saddle ourselves with a higher rate of interest for fifteen or twenty years.

Hon. Mr. STEVENS: Of that I have not any criticism at all; that is a matter of management.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: By arrangement with the underwriters for a large sum, there must have been some definite arrangement, and with some purpose in view, why it was done. Who were the underwriters, and where is the \$8,666,000 reflected?

Mr. COOPER: We did not take it down because we did not need it.

Mr. GEARY: You did not want to pay interest on it?

Sir HENRY THORNTON: We are doing our best on both sides to make this clear.

Hon. Mr. STEVENS: I am not trying to embarrass you at all.

Sir HENRY THORNTON: You do not embarrass me in the least, and we are all doing our best to see if we cannot make it clear.

Hon. Mr. STEVENS: I do not think I am unusually stupid?

Sir HENRY THORNTON: No, I am not criticizing you but we are all trying to make it clear.

Hon. Mr. STEVENS: I have asked two questions, first, why was the \$8,666,000 held out, and second, if it was held out, where do you reflect the \$8,666,000 in some other part of your statement?

Sir HENRY THORNTON: In other words, why and where? Can you answer that, Mr. Cooper?

Mr. COOPER: No, I cannot give the reason why we did not make a full issue as of December 31. It is obvious to me that we did not actually need the money. As to why we do not show it in some other part of the statement, it was not actually issued at December 31, and the balance sheet is a statement as of that date.

Hon. Mr. STEVENS: But it was arranged.

Mr. COOPER: We sold the bonds piecemeal, and we only sold \$28,000,000 in 1928.

Hon. Mr. STEVENS: Who were the underwriters?

Sir HENRY THORNTON: That was issued to Blair & Company under competitive bidding.

[Mr. H. T. Cooper.]

Hon. Mr. STEVENS: And they took the total issue?

Mr. HANSON: But not all at one time. The only confusion, I think, is that you charge up the whole liability as of December 31, 1928, when as a matter of fact you had not this all outstanding, and he wants to know where the system is for the difference.

Mr. COOPER: No, we did not charge the full amount as a liability. Will you look at page 28, and go back if you will to page 15. We show funded debt unmatured \$977,000,000 on the balance sheet, on page 15.

Mr. HANSON: That is the total on page 15?

Mr. COOPER: That shows \$977,000,000 of debt outstanding on December 31. That is detailed on pages 28 and 29; on the left-hand side of that, about half-way down you will see an issue of 40-years guaranteed gold bonds outstanding at December 31 of \$26,334,000, and we state that, so that there will not be any misunderstanding and say that that is part of the \$35,000,000 issue, balance sold January 3, 1929.

Mr. HANSON: That is plain enough, and anybody can understand that, but that does not answer what I am getting at. Why the \$13,500,000?

Sir HENRY THORNTON: I was going to make this suggestion, Mr. Stevens, if it is agreeable to you, if you like to do so, Mr. Cooper will sit down with you at some time and try to make this clear to you.

Hon. Mr. STEVENS: I do not want to appear so dumb.

Sir HENRY THORNTON: On the other hand, we do not want to appear so dumb in our explanations that we have not been able to make it clear to you. We want to make it as clear as crystal. I have no objections to continuing, by all means, but I thought perhaps it might be more convenient for you. You need not worry about anybody being dumb about these accounts, because I can tell you that there are a lot of us who are dumb in that respect, because they are intricate and hard to follow.

Mr. McLEAN (Melfort): That \$31,000,000 is not part of the \$40,000,000?

Sir HENRY THORNTON: No, \$21,000,000 of it.

Mr. GEARY: Will you tell me how you financed that \$25,000,000 between October and December 31st, 1928? You arranged it with the bank in 1928, and you had spent it in 1927. How did you finance it in the meantime?

Mr. COOPER: Out of our working capital.

Mr. GEARY: How much did your working capital amount to, roughly?

Mr. COOPER: We had \$18,000,000 of cash at December 31, 1928.

Mr. GEARY: That is just the ordinary cash receipts which you had to work along on?

Mr. COOPER: Yes, free of course.

Mr. GEARY: Is that a pretty substantial amount for working capital?

Mr. COOPER: I would say that at the present time the working capital is very, very low.

Mr. GEARY: I would say so too.

Mr. CANTLEY: That \$18,000,000 is not net?

Mr. COOPER: No.

Mr. CANTLEY: That is varied by current liabilities which are due day by day?

Mr. COOPER: Yes.

The CHAIRMAN: Any further questions? Traffic.

Sir HENRY THORNTON: I want to answer a question which Mr. Stevens asked a moment ago. I think I have some information here for him.

[Mr. H. T. Cooper.]

The quantity of wheat in Canada on March 31st, 1929, last, amounted to 244,423,005 bushels, an increase of 18,151,158 bushels over the corresponding date of last year.

The 1929 wheat stocks on hand comprise 171,290,525 bushels in elevators, flour mills and afloat, 60,517,000 bushels in farmers' hands and 12,615,479 bushels in transit by rail.

That has some bearing on the question which Mr. Stevens asked me.

Hon. Mr. STEVENS: Thank you. Might I be permitted one further question which is this; in that temporary financing in October 1928, you provide for \$40,000,000 from the bank to cover certain items, retirements, and so on, on the 1928 budget. Would there be included in that \$40,000,000 the amount which was not provided for as you say, in the \$35,000,000 out of this bond issue?

Mr. COOPER: The \$40,000,000 is made up in this way: \$5,900,000 for the 1927 budget; about \$23,000,000 to retire Canadian Northern Income Charge Debenture Stock; and \$11,351,000 of the 1928 budget. That is the \$40,000,000.

Hon. Mr. STEVENS: It would not contain the \$8,000,000 at all? This \$8,000,000 is provided for in addition to that?

Mr. COOPER: The \$8,000,000 in addition to the \$40,000,000? Yes.

Mr. GEARY: In 1929 you issued \$75,000,000?

Mr. COOPER: In a way you could say we made \$75,000,000 in financing last year, of which \$35,000,000 was permanent and \$40,000,000 was not, and we had not drawn upon the \$8,000,000.

The CHAIRMAN: The \$8,000,000 is in reserve?

Mr. COOPER: The bonds have not actually been sold.

Hon. Mr. STEVENS: What did you get for the \$35,000,000 bond issue?

Mr. COOPER: The price to the public was \$96; that is a yield of 4.72.

Mr. HANSON: From the underwriters or from you?

Mr. COOPER: What the public paid for them.

Hon. Mr. STEVENS: What did you get for them?

Mr. COOPER: The railways sold them for \$94.16.

Mr. HANSON: Do you absorb the discount in that particular year?

Mr. COOPER: No, sir.

Mr. HANSON: You spread it over the term of the bonds?

Mr. COOPER: Yes, sir.

Mr. McLEAN (Melfort): What was the cost of that money to you?

Mr. COOPER: 4.82.

Mr. GEARY: You just amortize this over forty years?

Mr. COOPER: Over the life of the security?

Mr. HANSON: That is your regular practice?

Mr. COOPER: On a straight line amortization basis, yes.

Mr. GEARY: That means that when you have finished your financing this year, you will have \$75,000,000 outstanding which will have covered the items in the 1928 budget, including the whole Toronto terminal.

Mr. COOPER: This will cover \$5,900,000 for the 1927 budget; \$22,728,000 to retire Canadian Northern Income Charge Securities; \$11,351,000 for the 1928 budget; Toronto Terminal and branch lines, \$13,500,000 and \$21,500,000 for the 1928 budget.

Mr. GEARY: As of December 3rd, 1928?

Mr. HANSON: And will be reflected in an increased capital investment of over \$40,000,000.

[Mr. H. T. Cooper.]

Mr. COOPER: The \$75,000,000 will not be a net addition to the funded debt.

Hon. Mr. CHAPLIN: Less \$2,000,000.

Mr. COOPER: More than that. We pay off between \$6,000,000 and \$7,000,000 of Capital Trust Certificates each year.

Hon. Mr. DUNNING: The net increase is ascertainable from the accounts anyway?

Mr. COOPER: Yes. In 1928 there was a decrease in funded debt of \$3,400,000; there was an increase of short term notes of \$43,500,000, so it was a net increase of about \$40,000,000.

Mr. GEARY: You will be charged with \$75,000,000 after your financing next year?

Mr. COOPER: Yes.

Mr. GEARY: You will not have \$8,666,000 in cash, because you will have to spend that to catch up, broadly speaking.

Mr. COOPER: No.

Mr. GEARY: That will just catch you up until December 31st?

Mr. COOPER: Yes; that will be going out as the work is completed.

The CHAIRMAN: Are there any further questions?

Hon. Mr. STEVENS: I would suggest that where an expenditure is not made it should not be shown as an expenditure. I was taking it for granted these expenditures were made and provided for, as you show them. You say a portion of that has not been expended?

Mr. COOPER: No.

Hon. Mr. STEVENS: I was taking it for granted that it was expended.

Mr. COOPER: This memorandum indicates in a general way what financing we did in 1928.

Mr. HANSON: There is a difference between the accounting side and the financial side.

Hon. Mr. STEVENS: Surely.

Sir HENRY THORNTON: "Traffic," "Telegraphs," "Insurance," "Colonization."

Hon. Mr. STEVENS: In regard to colonization; there is a clause there which says: "The decrease in British immigrants is partly accounted for by delays resulting from the regulations under which they were recruited." What is the meaning of that?

Sir HENRY THORNTON: The decrease in the movement of British people was due largely to the time consumed in connection with the regulation regarding investigation, medical examination, and so forth, and although the reduced rate was continued in 1928 the long delays occurring before the warrants were finally issued resulted in many cases in the applicants withdrawing their applications and deciding not to go. The decrease in the movement of British families under the three thousand family scheme was due to the fact that suitable farms in Canada were not available for their accommodation. In cases where the British families were large and had not sufficient capital to settle on land of their own, difficulty is experienced in Canada in placing them, as the average Canadian farmer who could give them employment has not the facilities to house them.

Hon. Mr. STEVENS: The first part of that refers to what I asked in my question, that is, the regulations were such that many intending immigrants abandoned their intention to come to Canada because of the onerous nature of these regulations.

[Mr. H. T. Cooper.]

Sir HENRY THORNTON: I do not know whether one could say "the onerous nature of these regulations," but at any rate the regulations were such that speedy action became difficult, if not impossible.

Hon. Mr. CHAPLIN: There were changes made in the regulations?

Mr. GUERTIN: There have been substantial changes in the regulations.

Hon. Mr. CHAPLIN: What was the nature of the changes?

Mr. GUERTIN: Additional facilities granted for medical inspection, a return, I believe, to the system under which additional doctors are provided.

Hon. Mr. STEVENS: British doctors?

Mr. GUERTIN: Yes.

Hon. Mr. STEVENS: Do you know how many?

Mr. GUERTIN: I have no record of the number. Then the simplification of the forms in use.

Hon. Mr. STEVENS: These long forms are used to fill out?

Mr. GUERTIN: Yes.

Hon. Mr. STEVENS: Do they still have a civil examination?

Mr. GUERTIN: Yes, they do, but it is much more simple.

Mr. GEARY: As a matter of fact, the European immigrants increased under the regulations, while the British immigrants decreased?

Mr. GUERTIN: During 1928?

Mr. GEARY: Yes.

Mr. GUERTIN: True.

Mr. GEARY: You lost thirty-two hundred British—

Hon. Mr. DUNNING: If one may go back a bit, following the sittings of the committee last year on immigration, certain changes were recommended by the committee, and I think it was after that period that the changes in the regulations were made effective, and probably would affect one half of the—

Mr. GUERTIN: The changes were made about the middle of the recruiting season. They would hardly be reflected in the 1928 business.

Hon. Mr. STEVENS: How is it this year?

Mr. GUERTIN: We note some improvement—a slight increase.

Mr. GEARY: Under your auspices these European immigrants come in, and at least so many are Britishers. Is that not rather a misstatement. I did not know that Great Britain was in Europe.

Sir HENRY THORNTON: Is not Great Britain in Europe?

Mr. GEARY: I am not speaking geographically. You do not include them as a rule.

Sir HENRY THORNTON: We segregate the British immigrants, yes.

Hon. Mr. DUNNING: "Of these" are the words used.

Mr. GEARY: The Britishers are part of the European immigrants.

Hon. Mr. CHAPLIN: The continent is by itself.

Sir HENRY THORNTON: I am afraid I do not quite catch Mr. Geary's point.

Mr. GEARY: You start by saying that during the year forty thousand European immigrants excluding British harvesters, and then you say "Of these five thousand six hundred and fifteen were Britishers." You do class them all to begin with as Europeans.

Sir HENRY THORNTON: Yes.

Mr. GEARY: That is not quite true, is it, as a matter of fact?

[Mr. H. T. Cooper.]

Sir HENRY THORNTON: Well, I don't know. We have certain immigrants who come from the United States. I think we should designate those who come from the continent of Europe as European immigrants; I think it is perfectly correct to do that.

Mr. GEARY: Great Britain is on the continent of Europe.

Sir HENRY THORNTON: One might suspect it, at least. Geographically I would say that unquestionably Great Britain would be considered a part of the continent of Europe.

Mr. GEARY: When you leave Great Britain, to where do you speak of going? To the continent. It is always distinguished from the rest of Europe.

Sir HENRY THORNTON: That is a popular expression which is used in England.

Mr. GEARY: The English people do not regard themselves as Europeans, they speak of going to the continent.

Hon. Mr. DUNNING: Not quite as you mention it: "From the island to the continent."

Sir HENRY THORNTON: We do distinguish them later on, because the statistics include British immigrants.

Mr. GEARY: England occupies a position of splendid isolation.

Mr. HANSON: When do we meet again?

The CHAIRMAN: I am in the hands of the committee.

Hon. Mr. DUNNING: In as much as the Canadian National officers are practically all here, I think for their benefit it would be desirable to keep the committee going. I would suggest that we meet to-morrow morning.

The CHAIRMAN: We will sit again to-morrow at eleven o'clock.

The committee adjourned until April 18th, at eleven o'clock.

SESSION 1929
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2—TUESDAY, 23rd APRIL, 1929

WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

Mr. Hazen, Assistant Chief Engineer, Canadian National Railways.

Mr. W. U. Appleton, General Manager, Atlantic Region, Canadian
National Railways.

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1929

MINUTES OF PROCEEDINGS

ROOM 375, HOUSE OF COMMONS,
THURSDAY, 18th April, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government was scheduled to meet to-day at 11 a.m.

As a mark of respect to the memory of Hon. J. W. Edwards of Frontenac-Addington, who died this morning, the Committee did not convene.

The Committee will meet on Tuesday, 23rd April, at 11 a.m.

ROOM 375, HOUSE OF COMMONS,
TUESDAY, 23rd April, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m., Sir Eugene Fiset, Chairman, presided.

Members present: Messrs. Bell (St. Antoine), Cantley, Duff, Dunning, Geary, Gray, Jelliff, Jenkins, McLean (Melfort), Milne, Power, Stevens.

In attendance: Sir Henry W. Thornton, President, Canadian National Railways, with members of his staff.

Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

Typewritten replies were submitted by Sir Henry Thornton to several questions asked at the last meeting by members.

Consideration of the Report was resumed, and the following items, as contained on pages 9 and 10, were called for discussion, viz: Land Sales. Purchasing and Stores. Industrial Department. Pensions. European Traffic. Grand Trunk Western Consolidation. Central Vermont. West Indies Trade Agreement.

CANADIAN NATIONAL RAILWAYS SYSTEM. ANALYSIS OF 1928 OPERATING EXPENSES AS COMPARED WITH 1927

Commencing at page 1, this analysis was read and discussed, section by section, up to and including "Train Enginemmen" on page 7.

At 1 p.m., the Committee adjourned until to-morrow, 19th instant, at 11 a.m.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

ROOM, 375, HOUSE OF COMMONS,

APRIL 23, 1929.

The Select Special Committee on Railways and Shipping met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: When we adjourned at the last meeting we were considering the report of Sir Henry Thornton to the Minister and had stopped at "Land Sales." Sir Henry, will you go on from there?

Sir HENRY THORNTON: I think perhaps before I continue it would be best to answer the questions asked at the last meeting, in order to clear up the old business. Mr. Stevens asked this question: "What was the carry-over of grain at January 1, 1928, as compared with that at January 1, 1927?" I have a statement here which I will file with the reporter and it may be included in the minutes, answering that question. It is as follows:

CANADIAN WHEAT SITUATION DEC. 31ST, 1927 AS COMPARED WITH DEC. 31ST, 1928

	In farmers' hands (bushels)	In country elevators (bushels)	In other elevators (bushels)	Total (bushels)
Dec. 31, 1927.....	105,000,000	46,000,000	112,000,000	263,000,000
Dec. 31, 1928.....	102,000,000	61,000,000	166,000,000	329,000,000

Carry-over at the end of the calendar year 1928 was greater than the 1927 carry-over by 66,000,000 bushels, of which greater amount 12,000,000 bushels had not yet started its rail movement and 54,000,000 bushels had partially completed its rail movement.

The next question which Mr. Stevens asked was what proportion of the gross freight revenue in 1928 is chargeable to the products of the soil. That question can not quite be answered in the form it was put, but this is as near as I can get it. "The estimated gross earnings accruing from products of agriculture on the Canadian National Railways in 1928 represented 26 per cent of the freight revenue. Agricultural products made up 40 per cent of the revenue ton mileage of the system."

Then someone—I cannot quite remember who it was—asked for some information with respect to the Hudson's Bay Railway. I think Hon. Mr. Dunning or Mr. Henry has that.

The CHAIRMAN: I think it was decided that that was to be brought before the other Committee.

Hon. Mr. DUNNING: Perhaps I misunderstood, but I thought the arrangement was that we were to clear up the Canadian National matters and then have available information regarding the Canadian National work for the government on the Hudson's Bay, so as not to interrupt the continuity of our work.

Sir HENRY THORNTON: The next item is "Land Sales," "Purchases and Stores," "The Industrial Development," "Pensions." That latter gives a list of the officers and employees who have retired with 50 or more years of service. "European Traffic," "Grand Trunk Western Consolidation."

Hon. Mr. STEVENS: Just at that point, Sir Henry: could you lay on the table at a future meeting, if you have not it now, a copy of the report given to the Inter-State Commerce Commission by the Grand Trunk Western and its allied lines—of all those American lines, their regular reports to the Inter-State Commerce Commission?

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Could you give us a brief outline of the reorganization, without disclosing anything which would interfere with your plans?

Sir HENRY THORNTON: Yes. The Grand Trunk Western Railway is owned entirely by the Grand Trunk, now the Canadian National Railways. It consists of a number of subsidiary companies, I think thirteen in number. Those companies were controlled through stock ownership, and in some cases, leases, but preserved their separate corporate identity. It involves a great deal of accounting work. It was an awkward and cumbersome way to administer the affairs of the company and it prevented the Grand Trunk Western from making that showing which its financial performance merited; consequently, we thought it would be highly desirable to amalgamate all of these companies into one and reorganize the whole financial position of the company, so as to put the parent company in a position to realize upon and capitalize the very satisfactory financial showing which the Grand Trunk Western has made in the last few years, a showing that was, of course, largely to be charged to the tremendous impetus given in the peninsula of Michigan to the manufacture of automobiles. Therefore, that work was undertaken and petitions are now before the Inter-State Commerce Commission, having been approved by the States of Michigan and Indiana, to bring about that consolidation. It makes no actual difference in the control of the Canadian National Railways over these properties, but it brings order out of chaos and produces a materially more efficient organization and a better financial structure. That, briefly, is what was undertaken.

Hon. Mr. STEVENS: You mentioned that the Grand Trunk, or the Canadian National, own all the stock of the Grand Trunk Western. Does the Grand Trunk Western own all of the stock of these subsidiary companies?

Sir HENRY THORNTON: That is substantially a correct statement.

Hon. Mr. STEVENS: There is not much held outside?

Sir HENRY THORNTON: No. There are certain shares of certain small subsidiary companies which ought to be acquired for the protection of the parent company, but substantially your statement is correct.

Hon. Mr. STEVENS: Of course, the bonds will be refinanced under the new structure?

Sir HENRY THORNTON: They will go to the public eventually.

Hon. Mr. STEVENS: You propose a reconstruction of the financial structure?

Sir HENRY THORNTON: Yes. I might say en passant that the Grand Trunk Western is one of the most profitable properties we have, and is a very important factor in our annual financial performance.

Hon. Mr. STEVENS: You will have filed these statements to the Inter-State Commerce Commission?

Sir HENRY THORNTON: Yes. The next is "West Indies Trade Agreement".

Hon. Mr. STEVENS: How is it working out?

Sir HENRY THORNTON: It is not really under way as yet. The last boat is about ready for operation, but it will be another two or three months before the full service is in operation.

Hon. Mr. STEVENS: I am told that they are very comfortable boats.

Sir HENRY THORNTON: I think they are. The only criticism I have heard of them is that they are rather too good for the trade, but I do not think they are. I think as far as passenger accommodation is concerned, we shall undoubtedly develop a very large passenger business between the West Indies

[Sir Henry W. Thornton.]

and Canada. In fact, during the winter time we shall probably have more passengers than we shall have space for, as it does represent the best service between the North American continent, including the United States, and the West Indies.

Mr. GEARY: What opposition have you there from Halifax?

Sir HENRY THORNTON: The most serious opposition which we have is a line of steamships which is operated by the International Aluminum Company between British Guiana and the Saguenay river, for the purpose of transporting bauxite. That being the ore from which aluminum is recovered, to the International Aluminum Company's works in that district. The line was put on primarily for the purpose of handling this bauxite.

Mr. GEARY: Which way does that go?

Sir HENRY THORNTON: It comes north. The result is that that steamship company carries freight between Canada and certain parts of the West Indies at ridiculously low rates, and it is this competition which we shall have to face. I dare say we shall work out of it in some way or other, but you can see what it means.

Mr. CANTLEY: They are going down in ballast?

Sir HENRY THORNTON: They will carry most anything they can get for nothing.

Mr. POWER: Do they carry passengers?

Sir HENRY THORNTON: No, I do not think so.

Mr. GEARY: What fruit receiving facilities have you in Halifax? My recollection is that there was a great deal required to be built there for the reception and storage of, say, bananas.

Sir HENRY THORNTON: There is a very good cold storage plant at Halifax, which is not only for fruit, but for anything which requires that form of treatment. The bulk of our shipments, of course, will be bananas, which will move from ship to cars, and will require very little, if any, storage.

Mr. GEARY: Have you had to put special cars on for that trade?

Sir HENRY THORNTON: Yes, we have had to provide refrigerator cars which are heated in the winter and cooled in the summer.

Mr. GEARY: The United Fruit business does not get any of this?

Sir HENRY THORNTON: Not yet. We do not quite know what the position of the United Fruit Company will be, but we do not anticipate any very serious competition from them, although we are prepared for it if it should appear. I might say that the bulk of the bananas will come from Jamaica, and the Jamaica producers will use our ships entirely.

Mr. GEARY: How have these bananas been routed heretofore?

Sir HENRY THORNTON: Mostly through New York.

Mr. GEARY: Water to New York, and rail to destination?

Sir HENRY THORNTON: Yes, although some may come up through New Orleans.

Mr. GEARY: Are they all coming through by Canada now?

Sir HENRY THORNTON: That is what we hope to accomplish.

Mr. GEARY: You have not quite reached that point as yet?

Sir HENRY THORNTON: The service has not been going long enough. In fact, the first ship to Jamaica will be there in a day or two. The other ships have been running to the eastern group of islands. There are two services, one

[Sir Henry W. Thornton.]

which serves the eastern group and one which serves the western group; that is to say, Jamaica and British Honduras. The western service is now commencing, and that is the service from which we expect the bulk of the bananas.

Mr. GEARY: It has been a passenger service largely to the eastern group?

Sir HENRY THORNTON: Yes, but there has been a fair amount of fruit moving there. There ought to be and will have to be a great deal of propaganda work done in the West Indies to promote the raising of better and greater varieties of fruit. These colonies are susceptible to very wide extension in their fruit and vegetable production. They have never had facilities in the past; there has never been any incentive or any particular urge for producers in that part of the West Indies to meet the Canadian trade. Now that we have this implemented by the new service one of the things we shall have to do will be to join hands with the colonial governments and with the producers and assist them in every way we can to diversify and add to their fruit and vegetable production; and I think if that problem is undertaken energetically and intelligently we shall not only promote greater traffic for our own steamship line, but we shall also very materially assist the West Indian planters in their own production.

Mr. CANTLEY: Is it your intention to bring these bananas to Halifax or Montreal?

Sir HENRY THORNTON: In the summer time the banana ships will run to Montreal.

Mr. CANTLEY: Do you think that is wise?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: I doubt that very much.

Sir HENRY THORNTON: Well, I don't see anything else to do.

Mr. CANTLEY: You will employ your ships for about ten days' additional voyaging than if you go to Halifax. You can certainly beat that time by rail.

Sir HENRY THORNTON: Time is not so large a factor with the cold storage facilities we have on the boats.

Mr. CANTLEY: You have your cold storage and your refrigerator cars.

Sir HENRY THORNTON: That would mean transferring the load, and I think Montreal is preferable.

Mr. CANTLEY: You will have to transfer the great bulk of it in Montreal. They cannot consume the whole cargo.

Sir HENRY THORNTON: No; it will have to be shipped from Montreal elsewhere.

Mr. CANTLEY: Some of it will go east from Montreal?

Sir HENRY THORNTON: Undoubtedly.

Mr. CANTLEY: Why not ship it from the east in the first place?

Sir HENRY THORNTON: We think it cheaper and better to do it the other way.

Mr. CANTLEY: We will see.

Sir HENRY THORNTON: We are open to conviction. We both have convinced each other in the past that we were right or wrong, as the case might be.

Hon. Mr. DUNNING: The most serious factor apparently is the putting on of this line of steamers for the bauxite trade, which introduces a type of competition which was not expected.

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: It is not competition in a way, because it means that these boats are travelling and they may as well go full as half full and consequently they take on loads at practically ballast prices.

Hon. Mr. STEVENS: That is, one way?

Sir HENRY THORNTON: Yes, and the other way too, because bauxite does not entirely complete the cargo north-bound. They have a certain amount of space which can be used for general freight north-bound.

Mr. CANTLEY: It is a question of the dead weight exceeding the space, and they might as well have light freight. I do not know what they might bring up, but it is one-way business. Their business is to carry bauxite, and if they are going down right, any freight they take will only involve the cost of loading and handling.

Mr. POWER: At what ports do the bauxite vessels stop?

Sir HENRY THORNTON: I do not know exactly, but at a certain number of ports in the British West Indies for freight purposes.

Mr. POWER: From which port in Canada would they take freight to the West Indies?

Sir HENRY THORNTON: They take some paper from Chicoutimi, and they take loads from St. Lawrence river ports.

Mr. POWER: You mean below the mouth of the Saguenay?

Sir HENRY THORNTON: Yes.

Mr. POWER: They do not go above the Saguenay?

Sir HENRY THORNTON: No.

Mr. POWER: Do they stop anywhere in the maritimes?

Sir HENRY THORNTON: I do not think so. This discussion might better come up under the Government Merchant Marine, when we will have the officers of the Merchant Marine here, and they can answer those questions in better detail than I.

Mr. POWER: It is not quite clear to me how they compete with your vessels if they do not stop at Halifax.

Sir HENRY THORNTON: I can tell you more about that to-morrow, but I think if you will not mind we might let that stand until the Merchant Marine people are here.

That completes the items, Mr. Chairman.

The CHAIRMAN: Shall Sir Henry's report to the Minister be accepted?

Hon. Mr. STEVENS: We are not quite through with that question of finance. I am not necessarily pressing that to-day, but I would just as soon leave the question open for a little while. We cannot carry the report at this time.

Hon. Mr. DUNNING: There is no necessity for carrying Sir Henry's report to the Minister.

Hon. Mr. STEVENS: No, but I do not want to be told later on that the discussion is closed.

Mr. GEARY: Will you explain to me the difference in the operating ratio between that shown in your report and that shown in the Deputy Minister's report. Your operating ratio is 78.89 as against 78.75, and the increase in the operating ratio was shown in the Deputy Minister's report as 83.59, which I believe includes the Eastern Lines.

Sir HENRY THORNTON: This report includes the Canadian National Railways without the Eastern Lines, and that operating ratio includes the Eastern Lines.

[Sir Henry W. Thornton.]

Mr. GEARY: In your yellow and blue you have not the operating ratio carried out.

Sir HENRY THORNTON: No, it is simply a matter of a little arithmetic.

Mr. GEARY: So the operating ratio on the Canadian National Railways, and the one you show, is for the central region, the Grand Trunk Western and the western region.

Sir HENRY THORNTON: The operating ratio is that for which we regard ourselves as primarily responsible.

Mr. GEARY: That simply includes the lines I mentioned?

Sir HENRY THORNTON: Yes.

Mr. GEARY: It does not touch the Eastern Lines at all?

Sir HENRY THORNTON: No. On the bottom of page 51 you will find the operating ratio of the Eastern Lines to be 112.6 per cent.

Mr. GEARY: But you have not shown the combined operating ratio anywhere?

Sir HENRY THORNTON: No.

Mr. GEARY: Then I may take it that the Deputy Minister shows it in his report.

Hon. Mr. DUNNING: I can only presume so. Major Bell prepared that report.

Mr. GEARY: The difference will be accounted for only by the fact that he probably took them all in.

Hon. Mr. DUNNING: This is dealing with a previous year.

Sir HENRY THORNTON: I think that is 1927—

Mr. GEARY: Yes, but you have 1927 in here. You show that in your statement on page 5, and I wondered if you were going to carry it on.

Sir HENRY THORNTON: The Minister's report has the Eastern Lines in it for six months.

Hon. Mr. DUNNING: What I expect has happened here—of course, I cannot speak for poor Major Bell in the matter—but I believe he endeavoured to work out the operating ratio for the whole, taking into account the six months' broken period on the eastern lines.

Mr. GEARY: I wondered if you had checked up on that.

Hon. Mr. DUNNING: I am sure the figures would check with the railway authorities. I can have it checked, if you desire.

Mr. GEARY: I thought if it was worth while treating it that way in the government report, it would be worth while treating it that way in the Canadian National report.

Hon. Mr. DUNNING: There are a number of accounting questions raised.

Mr. GEARY: I would like to know how badly it is changed by reason of the Eastern Lines.

Hon. Mr. DUNNING: There are a number of accounting questions involved. Perhaps Sir Henry might take that into consideration for next year in the presentation of the accounts.

Sir HENRY THORNTON: The theory which the railway administration proceeded upon was that the implementing of the report which resulted in a reduction of freight rates in the maritime provinces created a situation for which the railway administration was not responsible, and therefore we should show these reports, as I explained the other day, in three ways: first, excluding the Eastern Lines; secondly, including Eastern Lines; and thirdly, the Eastern

[Sir Henry W. Thornton.]

Lines alone. It really comes to the same thing if you include in the revenues of the Eastern Lines the appropriation which the government makes on account of the reduction in freight rates. It cancels both ways.

Mr. GEARY: I was wondering if we were getting a perfect picture of it.

Sir HENRY THORNTON: I think you are, because you have it three ways, and you can take it any way you like, either excluding, including or the Eastern Lines alone.

Mr. GEARY: If you would consider the suggestion of the Minister that perhaps next year the blue sheets might contain the operating ratio—

Sir HENRY THORNTON: I can give you that in two minutes. 81.8.

Mr. GEARY: If that is 81.8, you are just about where you were in 1927.

Sir HENRY THORNTON: 1927, was 84.8, and 1928 is 81.8.

Mr. GEARY: That should be a good showing, because you have a full year in 1928, but had only half a year in 1927.

Sir HENRY THORNTON: Yes, that is the whole system; that includes the Eastern Lines.

Mr. GEARY: I would be glad to have Mr. Henry check that up. Sir Henry Thornton has it 81.8 this year, and 84.8 in 1927, as against Major Bell's 83.59.

Mr. McLEAN (*Melfort*): Is one for the calendar year and the other for the fiscal year?

Sir HENRY THORNTON: I can tell you what that difference is. This year we merged. Instead of carrying the telegraph department as a separate company, for convenience and for the purpose of economy we absorbed what was the telegraph company into the Canadian National Railways, and carried it as a department of the railway instead of a separate company.

Mr. COOPER: In 1927 it showed the straight tariff revenues, and this year we have entered back as revenue the amount of the 20 per cent reduction. That was a suggestion of Mr. Stevens last year, and was carried out in the accounting.

Mr. GEARY: So for 1928 you charged this account with the 20 per cent you have received from the government?

Mr. COOPER: We credited to revenue the amount of the 20 per cent reduction which we collected from the government. We did not do that in 1927.

Hon. Mr. DUNNING: That probably would account for the difference.

Mr. GEARY: The 20 per cent you paid for their reduced rates was not taken into account.

Hon. Mr. DUNNING: Quite. We assumed that they got 80 per cent of what they ought to get from the shipper and 20 per cent of what they ought to have received from the shippers they received from the government, so the 20 per cent is revenue.

Mr. GEARY: That is a consolidated fund expense to the country.

Hon. Mr. DUNNING: Yes, Parliament votes it every year. That is in the Department of Railway estimates.

Mr. COOPER: You will find it set out on page 44, item 101a.

The CHAIRMAN: And also on page 55, the last item.

Mr. GEARY: That will amount to about \$1,200,000 more this year.

Hon. Mr. DUNNING: All the railroads receiving it treat it in the same way, as freight revenue.

Mr. GEARY: I think that is fair.

The CHAIRMAN: Gentlemen, you have before you the analysis of the 1928 operating expenses as compared with 1927, and have also the details of these operating expenses on pages 18 and 19. Shall we go on with a careful perusal of the analysis, or shall we go on to the details?

[Sir Henry W. Thornton.]

Hon. Mr. DUNNING: The analysis first. We can more readily understand the individual accounts if we have the general analysis.

Sir HENRY THORNTON: As a matter of fact, when you complete this analysis you have practically completed the report. I will ask Mr. Fairweather if he will be kind enough to read the analysis. I presume you desire to have it read and then ask certain questions about it.

Hon. Mr. DUNNING: It is divided into headings, and if the reader would stop at the end of each paragraph, questions could then be put and we would clear it up that way as we go along.

Mr. FAIRWEATHER (Reading):

CANADIAN NATIONAL RAILWAYS

Analysis of 1928 Operating Expenses as compared with 1927

In presenting the accounts of the Canadian National Railways last year, those of the Central Vermont Railway were excluded owing to the fact that this Company had been placed in receivership as a result of the disastrous floods which occurred in the fall of 1927. Although a plan of re-organization has been approved by the State Legislature of Vermont, this receivership has not yet been formally terminated. The accounts of the Central Vermont Railway are therefore excluded from those of the Canadian National again this year.

Mr. McLEAN (Melfort): What progress is being made on the recommendation of the road?

Sir HENRY THORNTON: The recommendation has been practically completed, and it is anticipated that the receivership will be listed probably this Autumn.

Mr. FAIRWEATHER (Reading):

Following the procedure of 1927, the income account of the lines east of Levis and Diamond Junction are shown separately, although for convenience, a consolidated income account, including the Eastern Lines, has been compiled and will be found on page 55 of the annual report. In the following analysis the Canadian National figures will be given first and then those of the Eastern Lines will follow.

Mr. GEARY: I was going to say that since you are taking into account the twenty per cent, is there any occasion for separating the Eastern Lines any further?

Sir HENRY THORNTON: I think it gives a better opportunity for comparison when they are separated. It does not really make a great deal of difference, so far as the figures are concerned, but we thought it would give a better picture and permit of more intelligent criticism if we gave the two separately, and I think we have to do so under the Act.

Mr. GEARY: I am speaking of the general showing which is not a matter of the Act at all—such as operating expenses, etc.

Hon. Mr. DUNNING: It is a matter of the Act, for the reason that in addition to the twenty per cent, the Act provides for the Government of Canada to pay to the railways the operating deficits of the Eastern Lines.

Mr. FAIRWEATHER (Reading):

In 1928 a different accounting method has been used in dealing with the revenues and expenses of the Telegraph Department; formerly it was the practice to account for the Telegraph activities as a separately operated property so that only the net result was included in the system

[Sir Henry W. Thornton.]

accounts. This year the revenues and expenses of the Telegraph Department have been consolidated with those of the railway by primary accounts. For convenient reference, the 1927 accounts have been restated on a comparable basis.

The operating expenses of the Canadian National Railways are classified in accordance with the accounting rules of the Dominion Bureau of Statistics, and are divided into 141 primary expense accounts, these being grouped under 7 main heads, with self-descriptive heads as follows:—

(1) Maintenance of Way and Structures.....	40	primary accounts
(2) Maintenance of Equipment.....	24	"
(3) Traffic.....	10	"
(4) Transportation.....	49	"
(5) Miscellaneous.....	5	"
(6) General.....	12	"
(7) Transportation for Investment Cr.....	1	"
Total.....	141	"

Mr. GEARY: The express items have not been segregated, and have not been for years?

Sir HENRY THORNTON: No.

Mr. FAIRWEATHER (Reading):

The comparison of expenses under these heads for the years 1927 and 1928 follows:

	TOTAL OPERATING EXPENSES		Decrease or increase
	1927	1928	
Maintenance of Way.....	\$43,174,956 45	\$ 48,010,559 17	\$ 4,835,602 72
Maintenance of Equipment.....	44,560,390 31	47,918,236 40	3,357,846 09
Traffic.....	6,734,641 64	7,047,167 70	312,526 06
Transportation.....	100,967,491 59	107,963,695 15	6,996,203 56
Miscellaneous.....	2,237,549 94	2,329,281 21	91,731 27
General.....	6,617,160 92	6,785,668 17	168,507 25
Transp. for Invest. Cr.....	976,506 56	1,806,264 12	829,757 56
	<u>\$203,315,684 29</u>	<u>\$218,248,343 68</u>	<u>\$ 14,932,659 39</u>

Mr. POWER: What does that last item represent?

Mr. FAIRWEATHER: Freight revenue collected by the company for the movement of material used chargeable to capital account. That is, for the construction of a branch line if we ship materials of construction to that branch line, we treat the expenses of handling the stuff as a capital charge.

Mr. POWER: Where do you set out your expenses for the transportation of coal? It would not be in that item?

Mr. FAIRWEATHER: No. The transportation of materials for the company's ordinary use is not charged in that account. It is absorbed in the operating expenses generally.

Mr. McLEAN (Melfort): It will be absorbed in the transportation account?

Mr. FAIRWEATHER: Yes.

Mr. McLEAN (Melfort): In that last item, if you move material for capital investment do you charge a company rate or a general rate?

Mr. FAIRWEATHER: There is a rate fixed for it. I think it is seven mills.

Mr. COOPER: If the tariff rate were lower than seven mills, we would charge the tariff rate.

Mr. GEARY: What are your primary accounts, in general? I think there are only twelve of them.

[Sir Henry W. Thornton.]

Mr. FAIRWEATHER: You will find them in the annual report.

Sir HENRY THORNTON: We will come to them as we go through the analysis.

Mr. FAIRWEATHER: They are in the analysis on page 22. The general rate is dealt with later on.

Mr. GEARY: You do not absorb in that account your overhead and maintenance of way?

Mr. FAIRWEATHER: The general officers would be in this account, but the minor supervisory officers would be in the appropriate account. General expenses are supposed to represent the expenses involved in the general conduct of the company's business.

Mr. GEARY: You do not subdivide them proportionately?

Sir HENRY THORNTON: No. You will find them more or less subdivided in the report.

Mr. FAIRWEATHER (Reading):

The expenses may be further divided for the purpose of comparison, between employees' compensation and other expenses. This comparison follows:

EMPLOYEES' COMPENSATION

	1927	1928	Decrease or increase
Maintenance of Way.....	\$ 24,242,126	\$ 26,079,435	\$ 1,837,309
Maintenance of Equipment....	23,582,400	25,088,758	1,506,358
Traffic.....	3,146,239	3,398,563	252,324
Transportation.....	66,463,198	71,222,686	4,759,488
Miscellaneous.....	1,095,720	1,127,175	31,455
General.....	4,250,971	4,311,344	60,373
	<u>\$122,780,654</u>	<u>\$131,227,961</u>	<u>\$ 8,447,307</u>

Mr. POWER: Have you worked out an average of the wages of the employees?

Mr. FAIRWEATHER: We worked it out, but I have not it available at the moment. It could be readily obtained.

Mr. POWER: It might be interesting to get the average wage of the employees other than those acting in an executive capacity.

Sir HENRY THORNTON: We can easily get that. We can give you the average compensation of all employees excepting those included in the general expenses. Would that meet your point?

Mr. POWER: I think that is what I want.

Hon. Mr. DUNNING: There would be a possible complication there. If it were stated on the annual basis—some of the men do not work all the year.

Sir HENRY THORNTON: We can strike an average which would be quite accurate. Of course, included in that would be a very large number of clerks.

Mr. POWER: I would like to get away from the clerical staff altogether. I suppose then necessarily you would only give me the wages of those who were perhaps members of the brotherhood, we will say.

Sir HENRY THORNTON: We could not separate it on a union basis, because we do not know how many of our men belong to the union. We suspect a very large number do, but there are a number that do not.

Mr. POWER: Do all of your employees belong?

Sir HENRY THORNTON: Not all.

Mr. POWER: All those engaged in operation?

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: You can say that substantially, but you cannot say that every individual does. There may be some who do not.

Mr. POWER: You have an arrangement with your employees?

Sir HENRY THORNTON: Yes, but they do not all belong to the union. You can say this, and it would be substantially correct, that for the purpose of answering your question, substantially all of the employees of the transportation company belong to some union or not. There will be some who do not but the percentage would be relatively small.

Mr. POWER: Leaving that out of the question, I would want those who come under the schedule which is in force by arrangement between you and the brotherhood.

Sir HENRY THORNTON: The answer to that would be the schedule rates, and we can give that to you at any time.

Mr. POWER: I do not suppose you could divide it in any way without considerable trouble, say, those doing the manual work and those doing office work.

Sir HENRY THORNTON: We can probably do that.

Mr. COOPER: We can give it by maintenance of way employees, transportation employees—different classes of employees.

Sir HENRY THORNTON: Is an engine man working with his head or his hands? The answer is that he works with both. What are you trying to get at? If we knew what you had in the back of your mind, we would know what to do.

Mr. POWER: I want to know what the average rate of wages of the employees is on the Canadian National Railways, other than the clerical staff—other than those holding clerical positions.

The CHAIRMAN: He is proposing to give it by classes.

Mr. GEARY: Is it possible for you to give an average rate for the drivers of engines?

Sir HENRY THORNTON: Yes.

Mr. GEARY: There are different classes of drivers? It depends somewhat on the run, does it not?

Mr. BELL (St. Antoine): How do your rates compare with other railroads, such as the Canadian Pacific Railway?

Sir HENRY THORNTON: Practically the same.

Mr. GEARY: When you have a question of wages arising do you treat with the brotherhood or a committee of the men?

Sir HENRY THORNTON: It is the same thing. We deal with a committee of the men, but it is a committee of the brotherhood, and if there is any disagreement the officers of the brotherhood would be immediately called in by the committee to assist them in their negotiations. To all intents and purposes it is a committee of the brotherhood.

Mr. MILNE: How do the rates compare with the Canadian lines and the American lines?

Sir HENRY THORNTON: There has always been a certain spread, a certain differential between the wages paid on the American railways and the Canadian. It is about 5 per cent.

Mr. POWER: Is the so-called McAdoo schedule still in force?

Sir HENRY THORNTON: No.

Mr. POWER: Has it been substantially modified?

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: Yes, I should say it had.

Mr. POWER: Is it still in effect in the United States?

Sir HENRY THORNTON: No.

Mr. GEARY: But your wages rise and fall—if they ever fall—more or less relatively with increases and decreases in the United States?

Sir HENRY THORNTON: Unquestionably. We find that to be exactly the case. For instance, we are in this position now; the American railways have given certain increases and we shall have to keep pace with those increases and preserve the present differential. Any wage movement in the United States which affects the general scale of wages on railways is immediately felt by both the Canadian Pacific and ourselves.

Mr. POWER: Has this differential been more or less established in conjunction with your employees?

Sir HENRY THORNTON: I should say that probably that question can be answered in the affirmative as accurately as any other way.

Mr. POWER: You have arrived at this set of wages by agreement with your employees extending over a period of time?

Sir HENRY THORNTON: Yes, the experience over a certain period of years has brought us to this differential which now exists.

Mr. FAIRWEATHER (Reading):

MATERIALS AND MISCELLANEOUS

Maintenance of Way.....	\$18,932,830	\$21,931,124	\$ 2,998,294
Maintenance of Equipment.....	20,977,990	22,829,479	1,851,489
Traffic.....	3,588,403	3,648,605	60,202
Transportation.....	33,527,787	34,934,745	1,406,958
Miscellaneous.....	1,141,830	1,202,106	60,276
General.....	2,366,190	2,474,324	108,134
	<hr/> \$80,535,030	<hr/> \$87,020,383	<hr/> \$ 6,485,353

Mr. GEARY: Does that not mean increased employment of men?

Sir HENRY THORNTON: Oh yes. What happens is this: let us suppose that the volume of freight movement increases. That means that immediately a number of firemen are promoted to be engine men, and a number of brakemen are promoted to be conductors, and their places in turn are taken by new men who come into the service, and who in time will move up. The increase in the number of men on the average last year as compared with the previous year was 4,000.

Mr. GEARY: Do the men get any benefit from the increased work available?

Sir HENRY THORNTON: Yes, their monthly earnings become greater because they run more continuously.

Mr. GEARY: So that both factors operate there?

Sir HENRY THORNTON: Precisely, and of course increased traffic means more men to keep up the track, and more cars moving through the yards mean an additional yard clerk here and there, so that an increase in freight movement finds its way into a number of different classifications of employment.

Mr. CANTLEY: With reference to the question of maintenance of equipment: last year you were good enough to give us a memorandum showing the number of wooden cars which you destroyed or retired, and the number still in use. Will you give us that information again?

Sir HENRY THORNTON: Yes, we will be glad to.

[Sir Henry W. Thornton.]

Hon. Mr. DUNNING: That is partly dealt with in this analysis, but perhaps not as completely as Colonel Cantley would require.

Mr. GEARY: May I ask a question here which occurs to me, but which perhaps is not quite relevant to the question under discussion? Formerly, you cited water-borne traffic as being a factor in your competition as regards rates. You do not say anything about that this year. Does that mean that you are not suffering any more? It means in last year's report you commented on the effect of that.

Mr. HENRY: You refer to the competition on the lakes?

Mr. GEARY: Yes.

Mr. HENRY: It is always there and always has an effect.

Mr. GEARY: I was wondering if it was hurting at all at the moment. I remember seeing it somewhere.

Sir HENRY THORNTON: Let me make a note of that, and I will tell you about it to-morrow.

Mr. GEARY: Here we have it, "Our revenues continue to be adversely affected by competition of water carriers; also by motor truck and bus competition."

Sir HENRY THORNTON: That still exists.

Mr. GEARY: Do you consider the motor truck competition a serious one?

Sir HENRY THORNTON: That is a contentious subject. We hear a good deal about competition of motors and buses, but competition between the motor buses and the railway would not be so bad for the railway if the railway could get rid of its short haul freight and passenger trains, even though that traffic went to the road. Where it hits us is that a motor line will be put on there for freight or passengers and they will make a material inroad in our revenues and take traffic away from us, but we cannot temper the wind to the shorn lamb by taking off our trains. We still have to run the trains because we must furnish that rail accommodation to the public. Now, wherever we can we do take off our service, but it is very, very seldom that you can meet the competition and reduce your expenses by taking off service. That is one point of view.

The other point of view which of course is well known is that the railways in general have had a very large freight traffic which originates from the traffic of motor companies, that is to say, automobile manufacturers and all of the indirect and allied traffic which is provoked by the manufacturers of automobiles. Consider, for instance, the Grand Trunk Western. We load every day eight hundred cars of automobiles, and by far the largest percentage of that traffic moves either to the Niagara gateway or through the Montreal and Rouses Point gateway. It represents a very large and lucrative traffic, a traffic which we will be very loathe to lose. If the question were put to any railway officer, "Would you if you could annihilate the whole of the motor business, the manufacture of motor cars?" he would unquestionably say no. We could not afford that at all, so it depends on the point of view.

Mr. GEARY: I think I remember you saying something not very long ago to that effect.

Sir HENRY THORNTON: Yes, I did. The business which accrues to us from the manufacture of automobiles is a highly lucrative and remunerative business which we would dislike to lose, but, like everything else, there is always a crab in everything and one of the crabs is the competition we experience from the use of motor buses, motor cars and automobiles on the highway.

Mr. GEARY: A great deal of that business finds its way to the highways?

Sir HENRY THORNTON: Yes, and unfortunately we cannot meet that in a measurable degree by taking off service.

Mr. GEARY: And your rates are still affected by the water-borne traffic?

Sir HENRY THORNTON: It is like the poor; it will always be with us.

Mr. GEARY: So the elimination of this reference this year does not indicate any change of view?

Sir HENRY THORNTON: No. We mentioned it last year and we supposed that everybody knew it existed and there was no need of mentioning it again.

Mr. GEARY: But there are compensating features in connection with motor buses?

Sir HENRY THORNTON: That is true. You never get everything you want in this world.

Mr. McLEAN (Melfort): You are getting to the stage where you do not want anything you want.

Sir HENRY THORNTON: I have not reached that stage of philanthropic blessedness. We want all the traffic we can get, and will fight for it as hard as we can.

Mr. FAIRWEATHER (Reading):

The increased expense on wage account amounting to \$8,447,307 was brought about by increased employment to the extent of \$7,085,000, made necessary as a result of increased traffic, and to an increase in the average rate of compensation per employee amounting in total to \$1,362,000. There were no wage increases granted in the year 1928, but certain increases granted the previous year operated in 1928 for a full year as compared with a part year in 1927.

The increase in materials and miscellaneous amounting to \$6,485,000 is made up as follows:

Decrease due to price changes.....	\$1,712,000
Increase due to Additional Material.....	8,197,000
Total.....	<u>\$6,485,000</u>

An analysis by class of materials follows:

	Changes in Price		Changes in Quantity
	Increase	Decrease	Increase
Ties.....	\$ 62,000		\$ 215,000
Rails.....	136,000		1,211,000
Coal.....		\$ 757,000	1,713,000
Miscellaneous Material.....		1,003,000	5,058,000
Sales Tax.....		150,000	
Total.....		<u>\$1,712,000</u>	<u>\$ 8,197,000</u>

Mr. GEARY: What does "Miscellaneous Material" mean?

Sir HENRY THORNTON: That means everything else but rails, ties and coal.

Mr. FAIRWEATHER: Do you want me to name some of them here, "air-brakes, axles, batteries, belting, belting compounds, brake beams, brake shoes, casings, cement, coal"—everything.

Hon. Mr. DUNNING: You have only got down to the C's.

Mr. FAIRWEATHER: Yes. The last item is zinc.

Mr. POWER: What is the chief item?

Mr. FAIRWEATHER: That would very likely be lumber or cement—one or the other.

Mr. CANTLEY: Structural steel.

[Sir Henry W. Thornton.]

Mr. FAIRWEATHER (Reading):

Distribution of changes due to price differences is as follows:

	Price Changes	
	Increase	Decrease
Ties.....	\$ 62,000	
Rails.....	136,000	
Coal.....		\$ 757,000
Miscellaneous Material.....		1,003,000
Sales Tax.....		150,000
Total.....		\$ 1,712,000

Mr. POWER: Can you explain the reason for the decrease in the price of coal?

Sir HENRY THORNTON: The answer to that is that the price of coal went down, and probably by more skilful competition.

Mr. POWER: Do you buy your coal in the maritime provinces?

Sir HENRY THORNTON: Yes. I will tell you all about that. I knew that would come up.

Mr. POWER: I only wanted to save you the trouble of answering Colonel Cantley.

Sir HENRY THORNTON: It is rather a shame to steal Colonel Cantley's thunder.

Mr. CANTLEY: There is still plenty of time.

Sir HENRY THORNTON: Mr. Bond is here and can tell us all about coal. What questions would you like answered?

Mr. POWER: I will ask Colonel Cantley to question him about that.

Sir HENRY THORNTON: Colonel Cantley, Major Power passes the buck to you. Do you wish to ask any questions?

Mr. CANTLEY: Not at this time.

Mr. FAIRWEATHER (Reading):

The distribution of changes in expense due to differences in quantities of materials used is as follows:

	Changes in Quantities	
	Increase	
Ties.....	\$ 215,000	
Rails.....	1,211,000	
Coal.....	1,713,000	
Material (Miscellaneous).....	5,058,000	
Total.....	\$ 8,197,000	

In order to make a more effective comparison with previous performance from the point of view of operating efficiency, it has been the practice of the Canadian National Railways to take into account certain of the larger factors causing variation in expense. The principal ones given consideration being changes in the compensation of the average employee, changes in the average price of materials, variations in volume of traffic, and wealthy conditions. The annual report reveals that from the standpoint of gross revenue, there was an increase in receipts amounting to \$27,915,547 compared to the preceding year, and as rate reductions amounting in total to \$908,000 were offered in the year, the comparative volume of traffic shows an increase of \$28,800,000 above that of the previous year. This represents an increase of 11.6 per cent in volume of

transportation rendered to the public. The total operating expenses have been shown to be \$218,248,344 as compared with \$203,315,684 for the preceding year, representing an increase of \$14,932,660, or 7.35 per cent. An analysis giving effect to the factors indicated above reveals that the increase of 11.6 per cent in volume of transportation service was obtained with an increase of 7.8 per cent in equated expenses, which is in exact accordance with modern theory of cost studies of railway operation.

MAINTENANCE OF WAY AND STRUCTURES

The first main group of operating expenses is Maintenance of Way and Structures. The expenses under this heading for the year 1928 as compared with the previous year were as follows:

1927.....	\$ 43,174,958
1928.....	48,010,559
Increase.....	<u>\$ 4,835,603</u>

The increase in expense is attributable partly to demands made by increased traffic and partly as a result of continuing the program of improving the track structure where necessary by the application of heavier rail and crushed rock ballast.

Mr. CANTLEY: What has been done in the matter of replacing wooden trestles with steel?

Sir HENRY THORNTON: Mr. Hazen will answer that question.

Mr. HAZEN: During the year there were 89 trestles eliminated by filling, totalling 15,498 feet, and replaced by steel or concrete, 4 trestles totalling 761 feet.

Sir HENRY THORNTON: Mr. Hazen, give Colonel Cantley the total number of feet of trestle replaced either by filling or by permanent structures.

Mr. HAZEN: 16,253 feet.

Mr. CANTLEY: Track feet?

Sir HENRY THORNTON: Yes. Does that answer your question?

Mr. CANTLEY: The first part of it.

Sir HENRY THORNTON: How much?

Mr. CANTLEY: How much of the original trestles remain unreplaced.

Mr. HAZEN: We had some trestles in our reconstruction last year. What we built totalled 7,021 feet. The total number of timber trestles at the end of December, 1928, was 3,219, totalling 413,736 lineal feet, an equivalent of 78.35 miles.

Mr. CANTLEY: How did that compare with a year ago?

Mr. HAZEN: There were 16,200 feet eliminated, 7,000 added. There are 9,000 feet less.

Mr. CANTLEY: What is the average age of a trestle?

Mr. HAZEN: That would be hard to answer, because they are replaced from time to time.

Mr. CANTLEY: What is the age of the oldest one?

Mr. HAZEN: The oldest timber trestle would be about fourteen or fifteen years.

Mr. CANTLEY: Is that not about the ultimate life?

Mr. HAZEN: Yes.

Mr. CANTLEY: So there will be large replacements due in the near future?

[Sir Henry W. Thornton.]

Mr. HAZEN: Some of them would last only ten or twelve years.

Sir HENRY THORNTON: The replacement is going on year by year.

Mr. CANTLEY: I would be glad to have a memorandum of that information.

Mr. DUNNING: It will be in the record.

Mr. GEARY: Are they replaced only because of deterioration?

Mr. HAZEN: No, not altogether, although we do not replace any until they are deteriorated.

Sir HENRY THORNTON: We would not tear out a perfectly good wooden trestle and replace it with steel until the life of the wooden structure was nearly exhausted.

Mr. GEARY: Or until it became obsolete due to the increased weight of traffic?

Sir HENRY: Those cases would be relatively few.

Mr. CANTLEY: You have increased the weight of the rolling stock very considerably.

Mr. HAZEN: And that necessitated the replacement of some structures.

Sir HENRY THORNTON: Some, but not a large number.

Mr. HAZEN: We can strengthen the wooden trestles to meet any increase in loading.

Mr. CANTLEY: It is a pretty big question. At one time you had an enormous quantity of them.

Sir HENRY THORNTON: It is a problem, but is one which every new railway has to meet. It exists, I believe, on the C.P.R. and most other railways.

Mr. CANTLEY: My object was to find out how far you would go toward meeting that.

Sir HENRY THORNTON: It is not a problem which gives us any great anxiety.

Hon. Mr. DUNNING: There were over 100 miles in 1923, and that has been cut down, even including additions, to 78 miles. There is a substantial and progressive reduction there.

Mr. McLEAN (Melfort): And a much larger mileage of road.

Sir HENRY THORNTON: There is a considerable sum chargeable each year to progressive elimination of wooden structures, and it will continue for many years.

Mr. GEARY: It is a current account; not a capital expenditure?

Sir HENRY THORNTON: If you renew it with steel you have to charge to Capital the difference in cost of the renewal in kind and the renewal with steel.

Mr. GEARY: You have no depreciation account set up to which that can be charged?

Sir HENRY THORNTON: No. That is taken care of by the annual renewals which are running into very substantial figures.

Mr. CANTLEY: You credit an amount for betterments, do you not?

Sir HENRY THORNTON: No, you charge it to Capital.

Mr. GEARY: Then credit your account with what you would take out, and your plant account, roughly speaking, increases by the difference?

Sir HENRY THORNTON: Yes.

Mr. COOPER: Write out the old structure and write in the new one.

Mr. JELLIFF: In your new branch line construction you are using more permanent material.

Sir HENRY THORNTON: That is a matter of judgment. There are some cases where this should be done; in other cases, it should not.

[Sir Henry W. Thornton.]

Mr. CANTLEY: With timber increasing in cost, cement and steel are decreasing?

Sir HENRY THORNTON: That is undoubtedly a fact. The increased cost of timber has made more attractive the change to permanent structures.

Mr. GEARY: You credit the Plant account with the original or book cost of the structure?

Mr. COOPER: Yes, and charge that to operating expenses less salvage.

Mr. GEARY: You also take the salvage into account.

Mr. COOPER: Into the stock account.

Mr. GEARY: The charge you make to your operating account is just the book cost less salvage.

Mr. COOPER: Yes.

Mr. BELL (*St. Antoine*): Under this general heading, this question might as well be asked now as later: in your traffic running north and south, originating at United States points, and shipped by American railways, what revenue does the Canadian National Railways get from that traffic when it reaches your line, and what charges are made in general against the foreign lines when they are on your line in Canadian territory?

Sir HENRY THORNTON: Do you mean how much gross revenue is derived from traffic which is moved over the line of the Canadian National system from one point in the United States to another?

Mr. BELL (*St. Antoine*): No, terminating in Canada, and what is the basis of figuring that revenue?

Sir HENRY THORNTON: That is all on the basis of an agreed division with the American railways with respect to the application of the tariffs. These proportions are all worked out and have been in existence for many years. They may vary from time to time, but not much.

Mr. GEARY: Were not the pulp people at you recently for a through rate?

Sir HENRY THORNTON: That resulted, as I recall it, from the movement of pulp from Canada to certain points in the United States. It is rather an intricate question and I will ask Mr. Pullen to explain that.

Mr. PULLEN: That was a question as to whether the United States lines were to apply their local rates from the border to the American destinations, and that question has not been settled yet. We do not know just what will take place eventually, as some of the American roads feel that they should have their full proportion of their local rates. The Canadian lines claim that they should not, and that is the way the thing stands to-day. How it will eventually work out, we do not as yet know.

Sir HENRY THORNTON: There have been a number of meetings and conferences held to try to reach an understanding.

Mr. GEARY: If they had their way it would result either in decreased proportions to the Canadian road, or increased through rates.

Mr. PULLEN: That is right.

Mr. BELL (*St. Antoine*): I was trying to ascertain first of all how these rates are fixed. Are they fixed by the Board of Railway Commissioners in regard to moving foreign traffic over your lines?

Sir HENRY THORNTON: They are fixed by negotiations between the traffic departments of the respective railways—of the delivering and receiving railways.

Mr. BELL (*St. Antoine*): When you say "they are fixed," would it be possible for your rates to be lower or higher than the rates of, we will say, the Canadian Pacific?

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: No, because if they were lower or higher the railway which was the higher would find itself immediately affected and would have to meet the competitive rate.

Mr. BELL (St-Antoine): That does not come up.

Sir HENRY THORNTON: There have been no cases that I can recall.

Mr. HENRY: Generally speaking, Mr. Bell, there is an international rate structure which governs the movement of traffic between the two countries.

Mr. McLEAN (Melfort): Is that largely based on the mileage in the two countries?

Sir HENRY THORNTON: That is based on the factors which govern all freight rates, which no one has as yet discovered.

Mr. GEARY: I was thinking, when this came up that there was some suggestion last year that we have a sort of informal international Board of Railway Commissioners—Inter-State Commerce Commission.

Hon. Mr. DUNNING: The more I look into it, the less I like it.

Sir HENRY THORNTON: The more of these kind of bodies we have the lower our freight rates seem to become.

Mr. GEARY: That is on this side?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Then perhaps we had better have one.

Sir HENRY THORNTON: You may have it, if you want it; it will only mean that we will make that much less money.

Mr. GEARY: What you mean, Sir Henry, is that they get unfairly low?

Sir HENRY THORNTON: They might.

Hon. Mr. DUNNING: And a good many other factors, I am sure, would occur to your mind.

Sir HENRY THORNTON: The next states how the increase was made up.

Mr. FAIRWEATHER: (Reading):

This increase is made up of:—

	Decrease in Average Rate of Compensation or Price	Increase in Quantity	Net
Labour.....	\$ 335,565	\$ 2,172,874	\$ 1,837,309
Material.....	27,471	3,025,765	2,998,294
Total.....	\$ 363,036	\$ 5,198,639	\$ 4,835,603

There were no changes in rates of pay, but the more effective elimination of overtime and a smaller ratio of supervisory pay to the total made this decrease possible.

Mr. CANTLEY: What do you mean by the ratio of supervisory pay?

Mr. FAIRWEATHER: That is the proportion of the number of officers to the men. (Reading):

An analysis by class of materials follows:—

	Price Changes Decreases	Increases	Quantity Increases	Net Increase
Ties.....	\$ 62,380		\$ 214,137	\$ 276,517
Rails.....		135,570	1,211,472	1,347,042
Other Mat. and Misc.....	\$ 225,421		1,600,166	1,374,735
	\$ 27,471		\$ 3,025,765	\$ 2,998,294

[Sir Henry W. Thornton.]

The principal increases and decreases are as follows:—

	Increase
Rails.....	\$ 1,347,042
Track Laying and Surfacing.....	968,277
Roadway Maintenance.....	640,338
Other Track Material.....	591,987
Ballast.....	312,498
Ties.....	276,517
Superintendence.....	224,413
	Decrease
Bridges, Trestles and Culverts.....	\$ 392,498
Removing Snow, Ice and Sand.....	82,054

RAILS

The increase in rails was due to increase in price of \$135,570 and increased quantity amounted to \$1,211,474.

Mr. CANTLEY: On that, Sir Henry, what weight of rails are you using?

Sir HENRY THORNTON: Hundred pounds.

Mr. CANTLEY: Are there heavier rails now being used?

Sir HENRY THORNTON: I think, if my memory serves me right, that the heaviest rails are about one hundred and thirty pounds to the yard.

Mr. GEARY: Is that the heaviest you use?

Sir HENRY THORNTON: We are using the hundred-pound rail; that is our heaviest rail. That heavy rail to which I refer, one hundred and thirty pounds to the yard, would be used on very heavy traffic divisions on trunk line railways; for instance on the Pennsylvania between New York and Pittsburgh, and the New York Central, probably between New York and Chicago, or something of that sort.

Mr. CANTLEY: The Sydney road, I think, has some one hundred and twenty-seven-pound rails?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Sir Henry, what does it cost per mile to lift sixty or seventy pound rails and replace them with hundred-pound rails?

Sir HENRY THORNTON: We can get that for you.

Mr. CANTLEY: You are doing a lot of it?

Sir HENRY THORNTON: Oh, yes.

Mr. CANTLEY: It must be comparatively easy to get at, and I would like to have some idea of what the comparative cost would be.

Sir HENRY THORNTON: Walter, can you tell us that?

Mr. APPLETON: About \$800 per mile for labour alone.

Mr. CANTLEY: I want to know what it costs to lift the sixty-pound rail, for instance, and replace it with one hundred-pound rails.

Sir HENRY THORNTON: We will get you that information.

Mr. GEARY: The very light rail you would place somewhere else?

Sir HENRY THORNTON: Yes, or most of it would be scrapped.

Mr. BELL (*St. Antoine*): Your new locomotive, of the six thousand class, do they require a heavy rail.

Sir HENRY THORNTON: Yes, it requires a heavier rail for the weight and also the speed; the weight is the greater factor.

Mr. BELL (*St. Antoine*): That factor is steadily increasing?

Sir HENRY THORNTON: Yes.

Mr. BELL (*St. Antoine*): And you are replacing them now with hundred-pound rails?

[Sir Henry W. Thornton.]

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Has there been any chemical change in the composition of your rails in the last two or three years?

Sir HENRY THORNTON: No.

Mr. FAIRWEATHER (Reading):

TRACK LAYING AND SURFACING

Track laying and surfacing, which shows an increase of \$968,227, reflects the increased labour in connection with applying the increased rails, ties and ballast. There was an increase of 2,487,000 man hours in this account.

ROADWAY MAINTENANCE

The increase in roadway maintenance of \$640,338 is chiefly due to the increased amount of work in maintaining the railway embankments made necessary as a result of heavy rains in the fall of 1927 and spring of 1928. The program of weed killing on the right-of-way, which has been inaugurated, has led to an expenditure of \$50,000 on chemicals for this service.

Mr. CANTLEY: With what results?

Sir HENRY THORNTON: Quite satisfactory results, Colonel.

Mr. CANTLEY: What chemicals are you using?

Mr. HAZEN: We use Shipman's non-poisonous weed killer.

Mr. CANTLEY: Where do you get it?

Mr. HAZEN: They import it from France and Germany, and mix it out in Winnipeg.

Mr. FAIRWEATHER: (Reading):

OTHER TRACK MATERIAL

The increase in other track material of \$591,987 is in line with the increased rail program.

BALLAST

Ballast shows an increase of \$312,497, which is due to the application of ballast on 438 more miles of track in 1928 than in 1927—miles ballasted in 1928 being 1,666 as compared with 1,228 in 1927.

Mr. CANTLEY: Sir Henry, how are you solving the question of ballast on the Prince Edward Island Railway?

Sir HENRY THORNTON: I think we bring all of our ballast from the mainland for Prince Edward Island. All the gravel ballast has to come from the mainland. I think Mr. Abbott can give you all the details of that.

In what way do you mean are we solving it, so that I can answer your question more intelligently?

Mr. CANTLEY: Of course you are aware that the quality of ballast on the Island is very inferior, being largely sand, and I assumed you were doing something to replace that by material from the mainland.

Sir HENRY THORNTON: That is what we are doing.

Mr. CANTLEY: Of the ballast, one sort would be gravel, and crushed rock, which would be something the same; the other would be blast-furnace slag. Have you done anything with blast-furnace slag?

Mr. APPLETON: Yes, we have had some correspondence with the people at Sydney, with regard to the movement of slag ballast for the Island, but on

[Sir Henry W. Thornton.]

account of the facilities and the cost of transportation we have not been able to make very much headway. Within the last three or four years we have moved a good deal of ballast by ferry, roughly about a hundred thousand yards, and we have the main line to Charlottetown and to Sunnyside in very good shape, as far as ballast goes. It is a very expensive proposition as the ballast costs us over two dollars a yard.

Mr. CANTLEY: What is the difference in cost between the crushed slag and the gravel which you are able to get?

Mr. APPLETON: We would have to pay about forty cents a yard for the crushed slag at Sydney, and then handle it by water, and there would be the cost of transporting it and putting it into the track. While it is a better ballast, we have not been able to make any arrangement with the people.

Sir HENRY THORNTON: How would it compare in cost with the gravel ballast?

Mr. APPLETON: The gravel ballast would cost us about ten or fifteen cents per yard on the cars, and the slag would cost us forty cents a yard at Sydney, and it is much further away.

Mr. CANTLEY: What is the relative cost of the different types of ballast when you have them on the work?

Sir HENRY THORNTON: Will you answer that Mr. Hazen?

Mr. HAZEN: I have that here. Slag ballast costs \$1.16 per cubic yard in the track.

Mr. APPLETON: And the other ballast runs about from 70 cents to \$1 according to the length of haul. We are using slag ballast on the Sydney subdivision altogether. Gravel runs from 70 cents up according to the length of haul from the pit.

Mr. HAZEN: My figures include everything.

Sir HENRY THORNTON: So that it comes to this that I understand that slag ballast runs \$1.16 per yard, and the other ballast from 60 cents to \$1.

Mr. CANTLEY: So that the comparison would be about 90 cents to \$1.16. But weeds will not grow in slag ballast.

Sir HENRY THORNTON: Don't they? They do. I was brought up on slag ballasts. I want to tell you that grass will grow on the head of a bald headed man.

Mr. CANTLEY: I would like to get a little to grow on mine.

The life of your sleepers is longer, and you have everything to gain. There is a case where you have to import the ballast from the mainland and I would throw out the suggestion for your consideration. I concede that there is slag ballast and slag ballast.

Sir HENRY THORNTON: I know that. I have seen more slag ballast than anybody else in this room.

Mr. HAZEN: That cost of slag ballast is the cost on the mainland.

Sir HENRY THORNTON: There is no question that slag ballast is better than any other form of ballast. But is it better to use the cheaper ballast?

Mr. CANTLEY: My suggestion is that where you have to import ballast, as you have to do for Prince Edward Island, if you make the proper arrangements for transportation, I think there is going to be comparatively little difference in the cost.

Sir HENRY THORNTON: If the steel companies will sharpen their pencils and name a figure, we will be only too glad to co-operate with them and see if we cannot use slag ballast.

[Sir Henry W. Thornton.]

Mr. CANTLEY: I am not speaking for the steel companies, but I would suggest that an arrangement might be made.

Sir HENRY THORNTON: We would be very glad to look into it. In principle, I think you and I agree.

Mr. McLEAN (*Melfort*): Could you give us a cost of the slag ballast delivered, on the same basis as the gravel delivered on the Island?

Sir HENRY THORNTON: Supposing, to save time, Mr. Hazen prepares a little statement as to the cost of slag ballast per mile on the Island?

Mr. McLEAN: Seventy cents and up might mean ninety cents, and we would like to have figures on the slag ballast delivered at the same points.

Hon. Mr. DUNNING: It can be made comparative?

Sir HENRY THORNTON: Yes, we will do that. Go ahead.

Mr. FAIRWEATHER (Reading):

TIES

Ties show an increase of \$276,517, which was brought about by an increase of 171,592 ties as compared with previous year. There was a slight increase in the average price—creosoted ties increasing from \$1.43 to \$1.51 and untreated ties from 72c. to 77c. The number of creosoted ties applied in the year was 1,485,619 and the number of untreated ties 5,773,431.

"Superintendence."

Mr. GEARY: Would you mind leaving that item until to-morrow and let me know just what happened in regard to the Toronto situation, because that is chiefly brought about by some things there. I would like to know what happened about the change at the corner of King and Yonge?

Sir HENRY THORNTON: That has nothing to do with this.

Mr. GEARY: Then that is not what I want. If you will at sometime during the meetings of this Committee give me that information I will be obliged.

Sir HENRY THORNTON: Oh yes. Go ahead.

Mr. FAIRWEATHER (Reads):

SUPERINTENDENCE

Superintendence shows an increase of \$224,414 brought about by increased rentals for office space, chiefly at Toronto, and an increase in the supervisory staff and rates of pay for same.

- I I

BRIDGES, TRESTLES AND CULVERTS

Bridges, Trestles and Culverts show a decrease of \$392,498—a decrease of 12 per cent from the previous year.

REMOVING SNOW, ICE AND SAND

Weather conditions in 1928 were again favourable and it was possible to hold this account to a minimum figure. The decrease, as compared with the previous year, was \$82,053.

MAINTENANCE OF EQUIPMENT

The comparative expenditures of Maintenance of Equipment, 1927 and 1928, are as follows:

1927.....	\$ 44,560,390
1928.....	47,918,236
Increase.....	\$ 3,357,847

[Sir Henry W. Thornton.]

An analysis of the increased expense under this heading, giving effect to changes in prices of material and average rate of compensation shows that the increase of 11·6 per cent in volume of transportation service was obtained with an increase of 7·5 per cent, which is in accordance with the modern theory of cost studies of this group of accounts.

This increase in expense may be analysed as between labour and material as follows:

ANALYSIS OF INCREASED EXPENSE				
	Decrease in Rate of Compensation or Price	Increase in Compensation or Price	Increase in Quantity	Net Increase
Labour.....		\$ 214,059	\$ 1,292,299	\$ 1,506,358
Material.....	\$ 518,320		2,369,809	1,851,489
	<u>\$ 304,261</u>		<u>\$ 3,662,108</u>	<u>\$ 3,357,847</u>

The situation in respect to condition of equipment at end of the year as compared with the end of the previous year is:

	Serviceable 1927	Serviceable 1928
Freight Cars.....	92·9	94·2
Locomotives.....	82·9	80·5

These figures compare favourably with those of Class-1 roads in the United States, and indicate company's equipment is being adequately maintained.

Mr. CANTLEY: What is the explanation of the discrepancy between those two items?

Sir HENRY THORNTON: Those items vary from year to year due to the conditions and circumstances. In general, the figures which have been given there in our report compare very well with what has been accepted first-class railways. The particular point that you ask is how is it that the serviceable locomotive in 1927 was 82·9, and in 1928 80·5. That is not a serious matter. That is an ordinary fluctuation. I will ask Mr. Thompson to answer that in a general way.

Mr. THOMPSON: The figure for 1927 was rather high, and the 80 per cent may be regarded as the necessary fluctuation from time to time in the program; but both figures are well within ordinary practice.

Mr. CANTLEY: Thank you.

Mr. FAIRWEATHER (Reading):

The principal increases and decreases in the primary accounts under this heading are:

	Increases
Freight Train Car Retirements.....	\$ 1,173,249
Freight Train Car Repairs.....	951,089
Steam Locomotive Repairs.....	901,252
Work Equipment Repairs.....	263,968
Passenger Train Car Repairs.....	239,625
Depreciation U. S. Lines.....	119,142
Steam Locomotive Retirements.....	\$ 440,448

FREIGHT TRAIN CAR RETIREMENTS

The largest increase is in freight train car retirements which shows an increase of \$1,173,249. This is brought about by heavy retirements which are effected in the year—4,438 system cars were retired as compared with 2,957 in 1927.

[Sir Henry W. Thornton.]

Mr. CANTLEY: That is certainly in the right direction.

Mr. FAIRWEATHER (Reading):

FREIGHT TRAIN CAR REPAIRS

Freight Train Car Repairs show an increase of \$951,089. This represents an increase of 6.2 per cent over the 1927 expense and was to be expected in view of the increased traffic.

STEAM LOCOMOTIVE REPAIRS

Steam Locomotive Repairs increased \$901,252. This represents an increase of 6.2 per cent, which is in line with the increased traffic.

WORK EQUIPMENT REPAIRS

Work Equipment Repairs increased \$263,968 due to more extensive repairs to this class of equipment and to an increase of 437,481 work train miles as compared with the previous year.

PASSENGER TRAIN CAR REPAIRS

Passenger Train Car Repairs show an increase of \$239,625, which is largely due to the increase of 7,902,174 passenger train car miles as compared with the previous year.

DEPRECIATION UNITED STATES LINES

Depreciation of equipment on United States Lines increased \$119,142. This increase is caused by the application of depreciation percentages for the full year 1928 on equipment purchases made during 1927.

STEAM LOCOMOTIVE RETIREMENTS

Steam Locomotive Retirements show a decrease of \$440,448. The number of system locomotives retired in 1928 was 49 compared with 97 in 1927, a decrease of 48.

Mr. McLEAN (*Melfort*): Perhaps at this stage, Sir Henry, you might tell us whether you spent some money on buying or hiring cars to move the crop last year.

Sir HENRY THORNTON: Yes, the account will show that we spent more money for borrowed cars for the movement of traffic in 1928 than in the previous year—an increase of two million dollars.

Hon. Mr. DUNNING: That is shown on page 17 of the accounts.

Mr. McLEAN (*Melfort*): We will come to that later on?

Hon. Mr. DUNNING: Yes, that is in the accounts.

Mr. CANTLEY: What was the total loss in the passenger traffic last year, as compared with the previous year?

Sir HENRY THORNTON: That is a pretty hard thing to get at, Colonel.

Mr. CANTLEY: You gave us the figures at around six millions, I think, about two years ago.

Sir HENRY THORNTON: I can give you some figures perhaps to-morrow or the next day about that. Go ahead.

Mr. FAIRWEATHER (Reading):

[Sir Henry W. Thornton.]

TRAFFIC

The comparative expenditures in 1927 and 1928 for traffic expenses are as follows:

1927.....	\$ 6,734,642
1928.....	7,047,168
Increase.....	<u>\$ 312,526</u>

An analysis of this increase as between labour, material and miscellaneous is as follows:

	Increase
Labour.....	\$ 352,324
Material.....	60,202

The principal increases and decreases of the primary accounts are:

Outside Agencies.....	\$ 138,902
Advertising.....	85,276
Colonization.....	40,200

The increased expense in advertising and in outside agencies is due to a general strengthening of the traffic soliciting organization.

Mr. CANTLEY: What is meant by "Outside Agencies"?

Sir HENRY THORNTON: That is agencies off the line of the railway.

Mr. FAIRWEATHER (Reading):

TRANSPORTATION EXPENSES

The comparative expenses of conducting transportation in 1927 and 1928 are as follows:

1927.....	\$100,967,492
1928.....	107,963,695
Increase.....	<u>\$ 6,996,204</u>

These figures represent the transportation expense applicable to the movement of all traffic including the cost of moving materials for construction work on capital accounts.

An analysis of the increase in expense, taking into account variations in the average rate of compensation and changes in the price of material, shows that the increase of 11.6 per cent in traffic was obtained with an increase of 6.4 per cent in the equated expense. Since the modern theory of cost analysis would indicate an increased expense of 9.8 per cent, it will be seen that the performance on transportation account is quite creditable and represents an economy due to more efficient operation of \$3,180,000 as compared with the previous year.

The analysis of this increase as between labour and material is as follows:

	Price Changes		Increase in	Net
	Increase	Decrease	Quantity	Increase
Labour.....		\$1,270,270	\$3,489,218	\$4,759,488
Material.....	1,080,757		3,317,473	2,236,716
	<u>.....</u>	<u>\$ 189,513</u>	<u>\$ 6,806,691</u>	<u>\$6,996,204</u>

[Sir Henry W. Thornton.]

Mr. CANTLEY: You said that the decrease was due to decreased compensation—is not that due to better handling?

Sir HENRY THORNTON: It means that less money in the total was paid. No wages were reduced, but it means that we handled the business with fewer men.

The CHAIRMAN: And less part time.

Mr. FAIRWEATHER (Reading):

The principal items of increase by primary accounts are as follows:

Fuel for Locomotives.....	\$955,819
Train Enginemen.....	911,957
Trainmen.....	762,136
Train Supplies and Expenses.....	737,240
Station Employees.....	583,325
Telegraph and Telephone.....	522,805
Yard Conductors and Brakemen.....	382,279

FUEL FOR LOCOMOTIVES

The increase in fuel for locomotives of \$955,819 is divided between fuel for yard locomotives and fuel for road locomotives—the increases in which respectively were \$329,521 and \$628,298. This increase of \$955,819 is made up of an increase of \$1,713,035 due to the greater quantity of fuel consumed which is partially off-set by a decrease in the average price, the effect of which is a decrease of \$757,216.

TRAIN ENGINEMEN

The increased expense of \$911,957 is partly accounted for as the result of wage increases to enginemen granted in 1927 and operative in 1928 for a full year as compared with only a portion of 1927. The balance of the increase is in line with the increase in traffic.

The CHAIRMAN: It is now one o'clock. We will meet to-morrow at eleven. We will be compelled to meet in Room 268 on the main floor.

The Committee adjourned till Wednesday, April 24, 1929, at 11 a.m.

SESSION 1929

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3—WEDNESDAY, 24th APRIL, 1929

WITNESSES:

- Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.
- Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Canadian National Railways.
- Mr. T. H. Cooper, General Auditor, Canadian National Railways.
- Mr. F. W. Fairweather, Bureau of Economics, Canadian National Railways.
- Mr. W. U. Appleton, General Manager, Atlantic Region, Operation and Construction Department, Canadian National Railways.
- Mr. S. J. Hungerford, Vice-President, Operation and Construction Department, Canadian National Railways.
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OTTAWA

F. A. ACLAND

PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1929

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,
Room 268,
24th April, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

Members present: Messrs. Bell (*St. Antoine*), Cantley, Chaplin, Dunning, Geary, Gray, Hanson, Jelliff, Jenkins, McLean (*Melfort*), Milne, Stevens.

In attendance: Sir Henry W. Thornton, President, Canadian National Railways, with members of his staff.

Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

Replies were furnished by Sir Henry Thornton to several questions asked at the last meeting of the Committee.

CANADIAN NATIONAL RAILWAYS SYSTEM. ANALYSIS OF 1928 OPERATING EXPENSES AS COMPARED WITH 1927

Consideration was resumed at "Train Enginemen" on page 7. The remainder of page 7, and all of page 8, having been read and discussed, the last two pages, viz.: "Analysis of Operating Expenses Eastern Lines" were read. Lengthy discussions took place on several of the items.

ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

Pages 41 and 43, "Eastern Lines," were reviewed and discussed.

By permission of the Committee, Mr. Adshead, M.P., asked a question.

At 12.50 p.m., the Committee adjourned until to-morrow, 25th instant, at 11 a.m.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

ROOM 268, HOUSE OF COMMONS,

April 24, 1929.

The Select Standing Committee on Railways and Shipping met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: Order, gentlemen. There were certain questions asked yesterday to which I think Sir Henry has the answers this morning.

Sir HENRY THORNTON: Colonel Cantley asked what the loss was on passenger service last year. The loss on the Canadian National Railway system was \$6,337,916.21.

Mr. CANTLEY: No material difference between that and the preceding year?

Sir HENRY THORNTON: Very much the same. Colonel Cantley also asked how many wooden cars are in service at the present time and how many such cars were retired from service last year. The answer to that is:

	Cars in Service at Dec. 31, 1928
Wooden.. . . .	8,047
Wooden, with metal draft arms.. . . .	42,763
Total.. . . .	50,810

	Cars retired during the year 1928 and not replaced in kind
Wooden.. . . .	1,989
Wooden, with metal draft arms.. . . .	1,795
Total.. . . .	3,784

Colonel Cantley asked the total cost of replacing 67 pound rails with 100 pound rails, per mile. The answer to that is:

Cost per mile chargeable to Capital.. . . .	\$ 4,224
Cost per mile chargeable to Maintenance.. . . .	7,152
Total cost.. . . .	\$11,376

Colonel Cantley asked the cost of gravel ballast versus the cost of slag ballast as applied to lines on Prince Edward Island. The answer is:

	Total cost of Ballast under ties
Gravel ballast.. . . .	\$2.26 per cu. yd.
Slag ballast (if moved by water).. . . .	2.62 per cu. yd.
Slag ballast (if moved by rail).. . . .	2.80 per cu. yd.

Mr. Power asked the average wage for employees other than executives. We have had to give that on an hourly basis as we could not work it out accurately on a daily basis. There are a number of figures on this answer which I will not read, but the sum of it is that the average hourly rate in 1928 was 59.8 cents per hour; in 1927 it was 59.2.

Mr. GEARY: That includes engineers and so forth?

Sir HENRY THORNTON: It includes everybody except the so-called officers.

Mr. GEARY: So your labouring wage would be 43 cents an hour?

Sir HENRY THORNTON: There is a lot more detail which Mr. Power desired, but I did not read it. The statement may be included in the record.

QUESTION ASKED BY MR. POWER, APRIL 23, 1929

Q. What is the average wage for employees, other than executives—A.

	Average number of employees		Total compensation		Average hourly rate	
	1928	1927	1928	1927	1928	1927
Professional, clerical and general..	15,665	15,249	\$ 23,597,618	\$ 22,329,263	\$.611	\$.596
Maintenance of Way and Structures	28,978	27,359	32,599,530	31,033,746	.433	.439
Maintenance of equipment and stores	27,732	26,992	40,645,370	38,374,657	.619	.613
Transportation (other than train, engine and yard)	19,205	18,630	27,150,415	25,861,857	.528	.519
Transportation (yardmasters, switchtenders and hostlers) ..	965	965	2,087,024	1,987,328	.790	.759
Transportation (train and engine service)	15,425	14,674	38,810,502	35,979,446	.916	.906
All employees (excluding officials)	107,970	103,869	\$164,890,459	\$155,566,297	\$.598	\$.592

Mr. Stevens asked for copies of annual reports to the Inter-State Commerce Commission filed by all the companies of the Grand Trunk Western Lines and for a copy of the petition to the Inter-State Commerce Commission in connection with the proposed consolidation. They are here on the table.

The CHAIRMAN: At the adjournment we were about the middle of page 7. Mr. Fairweather, will you continue your reading?

Mr. FAIRWEATHER (reading):—

Trainmen

Trainmen show an increase of \$762,136, which is largely due to increased expense on account of increased traffic.

Train Supplies and Expenses

Train Supplies and Expenses show an increase of \$737,240. An increase in this account is to be expected in view of the increased traffic.

Station Employees

Station Employees show an increase of \$583,325. Of this increase \$334,000 is due to the effect of increase in rates of pay granted in 1927 operative for the full year 1928 as compared with a portion of 1927.

Telegraph and Telephone

Telegraph and Telephone operation shows an increase of \$522,805, of which increase in rates of pay amount to \$97,000. The balance of the increase is due to the large increase in commercial telegraph business.

Yard Conductors and Brakemen

Yard Conductors and Brakemen show an increase of \$382,279, and was to be expected in view of the increased traffic.

Miscellaneous and General

The comparison of expenses under miscellaneous operations for the year 1927 and 1928 is as follows:—

1927	\$ 2,237,550
1928	2,329,281
Increase	\$ 91,731

Mr. CANTLEY: An increase of how much?

Mr. FAIRWEATHER: Increase in our service—more diners (reading):—

Dining and Buffet Service shows an increase of \$173,538, which was to be expected in view of the increased service rendered.

Accounts for Restaurants, Grain Elevators and Producing Power sold show decreases of \$32,066, \$20,188 and \$27,189 respectively.

General

The expenses coming under the head of general expenses in 1927 and 1928 compare as follows:—

1927..	\$ 6,617,161
1928..	6,785,668
Increase..	\$ 168,507

Pension—the only item to show a large increase—shows an increase of \$126,234. This is due to an increase of 178 in the average number of pensioners, the figure for 1928 being 1,945 as compared with 1,767.

Transportation for Investment—Cr.

Transportation for Investment Cr., which represents the cost of transportation service incurred in connection with moving materials for capital account and which is deducted from the operating expenses and is charged to capital compares in the two years as follows:

1927..	Cr. \$ 976,507
1928..	Cr. 1,806,264
Increase..	Cr. \$ 829,757

The greater activity in the carrying on of new construction and additions and betterments in 1928 as compared with 1927 accounts for this increase.

Sir HENRY THORNTON: Now, with respect to the other sheets. They represent the Eastern Lines.

Mr. CANTLEY: Just before we go on, I would like to ask the President in regard to the case of rails, for instance, coming from Sydney: what is your practice with regard to the freight chargeable on these rails from the mills to the points where they are used? You buy them delivered at the mills?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: What is your practice with regard to the rails?

Mr. VAUGHAN: If they are for maintenance there is no charge for freight, but the proportion chargeable to Capital would carry the usual charge, which I think is seven-tenths. In connection with the rails we buy from them delivered at Port Arthur, the price at Port Arthur includes the freight rate. They freight them to Port Arthur or Fort William. Any rails we buy from the British Empire Steel Corporation for delivery on western lines—they pay the freight, and our price includes the freight delivered on cars at the head of the lakes.

Mr. CANTLEY: What about Sydney to Truro, or Sydney to Moncton, or Sydney to Riviere du Loup?

Mr. VAUGHAN: There is nothing charged there except the proportion chargeable to Capital account. All our prices are either f.o.b. mill, f.o.b. Fort William or f.o.b. Vancouver.

Mr. CANTLEY: Take the case of Sydney, where it is f.o.b. mill: where is the freight rate absorbed? Does it go into the cost of re-railing the road and ultimately into Capital account?

Mr. VAUGHAN: The proportion chargeable to Capital account would carry the seven-tenths rate.

Mr. CANTLEY: Do you carry your rails from Sydney to points on the Moncton division and give the road no credit for the freight?

Mr. VAUGHAN: The road gets no credit except the proportion chargeable to Capital account.

Mr. GEARY: That is, the rails which go to Maintenance carry no freight?

Mr. VAUGHAN: No.

Mr. CANTLEY: The freight from Sydney to wherever they are used goes into the Capital account?

Mr. VAUGHAN: Only in so far as it is chargeable to Capital account. If we replace an 85 pound rail with a hundred pound rail, the difference in the cost would be chargeable to Capital account, and we would apportion to that part the seven-tenths rate. If we replaced an 85 pound rail with another 85 pound rail, there would be no charge.

Sir HENRY THORNTON: Perhaps I can make it clear in this way. If the rail is used for maintenance there is no freight charged. If it is used for capital that portion of the additional weight of the rail carries a freight rate of seven mills per ton per mile, and that is chargeable to Capital.

Mr. GEARY: In the case Mr. Vaughan has just suggested, replacing an 85 pound rail with a new 85 pound rail, if the old rail is worn out, the new rail is all Capital.

Sir HENRY THORNTON: Not all capital.

Mr. GEARY: You said it was all capital.

Mr. COOPER: We were speaking of a bridge structure.

Sir HENRY THORNTON: I think I can make that clear to you. If we renew an 85 pound rail with a 100 pound rail we charge to Maintenance what it would have cost to renew that rail in kind and weight, and we charge the excess weight, whatever the cost may be, to Capital. With respect to bridges: if we remove a wooden trestle and replace it with steel we charge to Maintenance what it would cost to renew that in kind, and charge the excess cost of the steel structure to Capital. In other words, the theory is that anything which is even academically an addition to property is a betterment, and is charged to Capital. Anything which strictly pertains to Maintenance is chargeable to Maintenance.

Mr. GEARY: How much is an 85 pound rail worth?

Mr. VAUGHAN: At the mill they are worth \$40 a ton.

Mr. GEARY: What do they primarily cost? Supposing it was \$40; in your Plant account you would charge \$40?

Mr. COOPER: No.

Mr. GEARY: It is destroyed?

Mr. COOPER: No. We do not interfere with the book cost to the extent that the plant is replaced in kind. It is the additional weight at current prices only which is charged to the Capital account.

Mr. GEARY: No matter if your book cost was \$40 originally, you put in the \$46 but you do not change your Plant account?

Mr. COOPER: No.

Mr. GEARY: You do that in the case of freight cars?

Mr. COOPER: Yes.

Mr. GEARY: You do not use that system all the way through?

Mr. COOPER: No. It is the practical application instead of theory. It would be almost impossible to identify the cost of a tie or a rail, so the theory gives way to practical application in rails, ties, and things of that nature.

Sir HENRY THORNTON: The practice we are following is the practice which is universal on all railways.

Hon. Mr. STEVENS: In replacing rails?

Sir HENRY THORNTON: On the whole system of accounting.

Hon. Mr. STEVENS: I thought it was the practice in the United States to retire by depreciation.

Sir HENRY THORNTON: There is one practice in the United States and another in Canada. We are dealing with some practices universal in Canada, but must necessarily follow the accounting provisions of the Interstate Commerce Commission in the United States. What I wanted to say was that the accounting practices of the Canadian National Railway in Canada and the United States respectively are in accordance with the practices of the railways in those respective countries. We embark upon no new accounting method or policy.

Mr. GEARY: In the United States you set up a depreciation account?

Sir HENRY THORNTON: That is required by law.

Mr. GEARY: You have to account for each rail in the depreciation account?

Mr. COOPER: In the United States the depreciation account relates only to equipment.

Sir HENRY THORNTON: There is one point perhaps you would like to know. We absorb in expenses the cost of creosoting ties. I simply mention this as a matter of information.

Mr. CANTLEY: Why do you do that? Because you think it is an experiment?

Sir HENRY THORNTON: No; chiefly because it is a conservative method of handling the accounts. The creosoting of ties has long ceased to be experimental.

Mr. CANTLEY: Your remark suggested that perhaps it was.

Sir HENRY THORNTON: I do not see how you can put that interpretation on it.

Mr. CANTLEY: If it increases the life of the tie why should it not go into Capital?

Sir HENRY THORNTON: It is a maintenance figure, and is the usual practice on all railroads.

Mr. GEARY: There would be no real difficulty in taking care of your rails. Every yard of telephone wire is taken care of in that way, and every pole.

Mr. COOPER: The Interstate Commerce Commission issued an order in November, 1927, relating to the application of Depreciation accounting on all railway property. That order has not yet been made effective, but in the order Commissioner Eastman made the statement that the present regulation regarding the charge to Maintenance of replacing rails and ties is wrong. He admits that, and he made the statement that when new regulations were issued the position would be corrected, but in the meantime we are accounting for these things under the regulations now in effect.

Mr. GEARY: At all events, it is the practice here? Are there not some cases in connection with your equipment where you fix a basis on a locomotive, say, per number of thousand pounds, and anything inside of that number is charged to Maintenance, and outside of that is chargeable to Capital?

Mr. COOPER: That was the old Grand Trunk method, but it is not adopted by any roads to-day.

Mr. GEARY: You do not do that?

Mr. COOPER: No.

Mr. McLEAN (Melfort): I see that the dining car and buffet service has increased in cost to the extent of \$173,000. Does that service carry itself?

Sir HENRY THORNTON: No; it is conducted at a loss.

Mr. McLEAN (Melfort): Is the loss decreasing?

Sir HENRY THORNTON: I will give you an answer to that later.

Mr. GEARY: Are we going to touch the Eastern Lines? I want to ask a general question on that.

Sir HENRY THORNTON: Perhaps it would be just as well to read that sheet.

Mr. FAIRWEATHER (reading): "Analysis of Operating Expenses Eastern Lines. The operating expenses of the Eastern Lines by general accounts is as follows: Maintenance of Way and Structures in 1927 was \$7,365,243.81; in 1928 it was \$7,997,429.36, an increase of \$632,185.55."

Mr. GEARY: It is a very small increase in comparison with the rest of it.

Mr. FAIRWEATHER: About a 9 per cent increase. For the balance of the system, it is 9 per cent.

Mr. GEARY: Does that include the old Intercolonial?

Mr. FAIRWEATHER: Yes. Generally speaking, we had the same increase on the Eastern Lines as on the rest of the system.

Mr. HANSON: But over a period of years is this increase larger than you have been in the habit of spending on the Eastern Lines in recent years?

Sir HENRY THORNTON: We had better give you a statement of the charges of Maintenance of Way and Structures on the Atlantic region, which is practically the Eastern Lines. For the last six years there was a little difference—

Hon. Mr. DUNNING: It would appear to go up rapidly if you took it in comparison with the Atlantic region. I suppose the figures may be produced for the Atlantic region alone.

Sir HENRY THORNTON: That is very simple, but the rate would change. The rate would almost certainly be the same in each case. Would you like to have that?

Mr. HANSON: No, I am not particular. That is an answer to my question.

Mr. GEARY: In other words, your Eastern Lines are in about the same state of maintenance and condition as are the lines of the rest of your system?

Sir HENRY THORNTON: Yes, certainly, and they have been very largely improved in the last six years—very materially improved.

Mr. HANSON: You have not put down any rock ballast on the Eastern Lines?

Sir HENRY THORNTON: That is not an expression of comparable maintenance at all. The fact is that we have in the last six years very materially improved the condition of the rolling stock, both passenger and freight, and the condition of the track itself in the maritime provinces.

Hon. Mr. DUNNING: There is no rock ballast on the western region?

Sir HENRY THORNTON: No, there is no rock ballast in the western region and I would not put down rock ballast in the maritimes as yet. The day will come when that will be a wise and proper thing to do, but not now.

Mr. JELLIFF: The rock ballast is mainly between Montreal and Toronto?

Sir HENRY THORNTON: Our purpose is eventually to have a rock ballasted railway from Montreal through to Chicago. That is partly on account of the density and weight of traffic, but largely on account of the nuisance of dust and dirt to passengers on the passenger trains.

Mr. McLEAN (Melfort): Could I have the mileage of the Eastern Lines as against the balance of the system?

Mr. FAIRWEATHER: 3,104 is the total operated mileage of the Eastern Lines, and the total of the Canadian National Railways is 19,364.

Mr. GEARY: I received a letter, to which I am paying no attention, because it was anonymous—

Sir HENRY THORNTON: I often get those myself.

Mr. GEARY: —which states that you are going to have a lot of trouble in connection with that line, the Quebec, Montreal and Southern.

Sir HENRY THORNTON: He is wrong in that.

Mr. GEARY: Is it in good condition?

Sir HENRY THORNTON: It is in fair condition. Of course, it will have to be improved; it is not in as good condition as some other parts of the system, but it is not bad. I get all kinds of advice and assistance from people who know a lot more about the railway business than I do, and I suppose you suffer from the same complaint politically.

Mr. HANSON: As a general rule, the branch lines that you take over are in a very run-down condition?

Sir HENRY THORNTON: I would not say "run-down", but they are not in that condition we would like to see them.

Mr. CANTLEY: So that we will clearly understand, what is the western limit of the so-called Eastern Lines?

Sir HENRY THORNTON: Diamond Junction.

Hon. Mr. DUNNING: The area defined in the Maritime Rates Act.

Sir HENRY THORNTON: You will find a map in the back of the annual report which shows the Atlantic region. Both Diamond Junction and Levis are a little to the west of the end of the brown lines—almost Quebec.

Mr. HANSON: That is the Transcontinental?

Sir HENRY THORNTON: Yes. The western limits of the Eastern Lines are a little bit beyond the end of the brown line.

Mr. GEARY: Your Eastern Lines run considerably to the east of those two points?

Sir HENRY THORNTON: The limits of the western end of the Eastern Lines are as I have stated. If you draw a north and south line through Quebec on that map you would be pretty close.

Mr. GEARY: Part of your Eastern Lines are in the central region?

Sir HENRY THORNTON: That is right.

Mr. CANTLEY: What is the distance from Riviere du Loup to Montreal?

Sir HENRY THORNTON: It is about 303 miles.

Mr. FAIRWEATHER (Reading): "Maintenance of Equipment \$5,556,937.77 for 1927; \$5,664,650.29 for 1928, an increase of \$107,712.52."

Mr. CANTLEY: In regard to that maintenance of equipment; in regard to the equipment generally used on the Eastern Lines, it has been often suggested that during the grain season and the movement from the prairies, a very considerable proportion of the railway equipment is moved west to handle the western crops and returned to us with considerable wear and tear.

Sir HENRY THORNTON: Who do you mean by "us"?

Mr. CANTLEY: I represent all the east for the purpose of this discussion, and it is said that we are charged with the renewals or betterments or reconstruction of this equipment. Is that correct?

Mr. COOPER: No, sir.

Mr. HANSON: How do you differentiate?

Mr. COOPER: All repairs to equipment are charged to an equipment pool, and the total expense is proportioned between the Eastern Lines and the Canadian National system, on the basis of mileage made by each class of equipment and the total combined mileages.

Mr. HANSON: You adopt an arbitrary method of allocating the cost of maintaining the equipment?

Mr. COOPER: It is apportioned on the basis of the use made by the different parts of the system; it does not matter where it is repaired; that has no effect whatever on the proportion of the expense.

Mr. CANTLEY: If the equipment of the Eastern Lines is taken west and brought back in an inferior condition, who bears the cost of that deterioration?

Sir HENRY THORNTON: The expense is based on the mileage used by different parts of the system.

Mr. McLEAN (Melfort): Would you keep the equipment separate, and bring the same cars back?

Sir HENRY THORNTON: No.

Mr. McLEAN (Melfort): So that cars which went from the Eastern Lines to haul grain might never return?

Sir HENRY THORNTON: Precisely. It is a pool, and the charge against the Eastern Lines is determined by the mileage made in the Eastern Lines in carrying freight from which revenues accrue to that part of the system. Does that answer your question?

Mr. CANTLEY: Partially. There is an item of over \$5,500,000 for maintenance of equipment, and the feeling is pretty general throughout the maritime provinces that a lot of our equipment is taken away and returned in bad condition, or if not returned is replaced with inferior equipment.

Sir HENRY THORNTON: That feeling is without foundation. I am glad to have the opportunity to make that perfectly clear that we have tried, as far as it is humanly possible, to be perfectly just and fair in the distribution of expenses among all the different regions.

Mr. CANTLEY: I am not suggesting that you are not trying to be fair.

Hon. Mr. DUNNING: The rate of increase on the Eastern Lines as compared with the rate of increase on the system generally indicates a greater increase in the cost. There is an increase of \$107,000 on \$5,600,000 on the Eastern Lines as against an increase of \$3,350,000 on \$47,000,000 on the system generally.

Mr. GEARY: I suppose Colonel Cantley's point is that you put all the decrepit cars and equipment on the Eastern Lines and keep the good ones in the west.

Sir HENRY THORNTON: That also is without foundation.

Mr. CANTLEY: There must be some foundation for it.

Sir HENRY THORNTON: I would not say that.

Mr. CANTLEY: We do get a larger proportion of inferior class of equipment—

Sir HENRY THORNTON: Equipment only becomes inferior or decrepit when it is improper equipment for handling the traffic involved.

Mr. CANTLEY: Sometimes there are exceptions to that. We have had complaints on that score of cars with leaky roofs which you would not consider putting on the western traffic.

Sir HENRY THORNTON: No, but they would be perfectly good for the movement of something else.

Mr. CANTLEY: But occasionally these cars are placed at points where it is not a question of moving material which cannot be injured by wetting, and the result is that we suffer.

Sir HENRY THORNTON: Mr. Appleton, have you had many complaints with regard to the movement of defective equipment in the Atlantic region?

Mr. APPLETON: No sir; just about the same as the other parts of the system. Where we get complaints as to leaky roofs, the cars generally originated in the central region. They are loaded with flour and commodities of that kind and come down to the maritime provinces.

Sir HENRY THORNTON: In the moving of 100,000 cars you are likely to get a defective car here and there?

Mr. CANTLEY: Are we getting more than our share?

Sir HENRY THORNTON: No, I think you are getting less.

Mr. APPLETON: We handled 14,000,000 bushels of wheat last year and we got a lot of good cars on that account. Speaking about the transfer of power, we have about 400 engines assigned to the Atlantic region, and last year we transferred 10 engines to the western region during the grain movement. Later on, when we were pressed for power in the Eastern region, we got six engines from the central region.

Mr. HANSON: What about the passenger equipment? Do you think it is on a par in the Eastern region with the central?

Mr. APPLETON: Yes, I would say so. I would say from observations made last Fall that our passenger equipment is better.

Mr. HANSON: I agree with you, on the through trains, but what about the branch lines?

Mr. APPLETON: We have some old cars. It is within the last year that we have been putting on better cars.

Mr. CANTLEY: We have equipment running to Sydney that you cannot sleep in.

Mr. HANSON: I thought they promised to fix that up.

Mr. APPLETON: In the Sydney service we have a modern steel train and have had for about a year. It is as good as on any part of the system.

Mr. CANTLEY: That is correct, but it does not cover all the traffic moving there.

Sir HENRY THORNTON: I have no doubt, gentlemen, that you can find parts of this system extending from the Atlantic to the Pacific, where the equipment is not as you would like to see it, nor as I would like to see it, but at the same time these things cannot all be remedied at once. We are making progress in that direction as fast as our purse will permit.

Mr. CANTLEY: I agree with that. But we are not getting a fair proportion of that new equipment.

Sir HENRY THORNTON: We are making very rapid progress in connection with the improvements of the service in the maritime.

Mr. CANTLEY: You are making some improvements, but far from what we are entitled to.

Mr. HANSON: No question but what on the main line, the service is good, and has been greatly improved.

Sir HENRY THORNTON: Just as fast as we can, we will build it up everywhere, but it will take time to do it.

Hon. Mr. STEVENS: What proportion of different classes of equipment, passenger cars and freight cars, are owned by the system, and what proportion are rented, over, say, the last four years.

Sir HENRY THORNTON: By "rented" do you mean foreign cars which we are using on a per diem arrangement on our lines?

Hon. Mr. STEVENS: That, as well as leased.

Sir HENRY THORNTON: Mr. Hungerford, have we any leased equipment? I do not think we have.

Mr. HUNGERFORD: Very seldom do we lease equipment. Once in a while for a special movement over a holiday we rent a few cars for a day or so.

Hon. Mr. STEVENS: The question was up two years ago, and you intimated then that you thought perhaps it was more economical to lease than to put new capital into new equipment.

Sir HENRY THORNTON: I think I remember that. We had nothing last year, but we did a couple of years ago. We will work that statement up for you.

Mr. McLEAN (Melfort): Do you own your sleeping cars in the United States?

Sir HENRY THORNTON: No. We operate all our runs into the United States with Pullman equipment. We cover the runs in Canada with our own equipment.

Mr. HANSON: Is that a matter of policy or long term contract with the Pullman Company?

Sir HENRY THORNTON: It is a little of both. Our pullman passenger business, so-called, into the States is operated under an arrangement with the Pullman Company, and works out very satisfactorily. If we withdrew these cars, we would be put to a very large capital expense for additional equipment, and I do not think that would be justified.

Mr. FAIRWEATHER (Reading): "Traffic; for 1927, \$764,675.63; for 1928, \$809,049.96, an increase of \$44,365.33; transportation, \$14,661,570.10 for 1927; for 1928, \$15,340,874.73, an increase of \$679,304.63."

Hon. Mr. DUNNING: Mr. Adshead has sent up a note. I do not suppose there will be any objection to his asking a question?

Some Hon. MEMBERS: No.

Mr. ADSHEAD: Is there any indication of making better provision for replacing the passenger terminals more nearly in the centre of the city of Calgary? At the present time it is at the end of First Street West, on the outskirts of the city. I wondered if there was any provision to be made for bringing it closer to the centre of town.

Sir HENRY THORNTON: That is under consideration.

Mr. ADSHEAD: In what direction? What is the proposed consideration?

Mr. HUNGERFORD: We have had under consideration two schemes, one to build a station of our own and the other to join with the Canadian Pacific Railway. The matter is under consideration with the Canadian Pacific at the present time. No conclusion has been definitely arrived at.

Mr. FAIRWEATHER (Reading):

Miscellaneous	396,619 47	401,150 37	Inc.	4,530 90
General	1,282,222 30	1,323,105 15	Inc.	40,882 85
Transportation for Investment Cr.	37,686 22	52,899 34	Inc.	15,213 12
Total	\$29,989,582 86	\$31,483,351 52	Inc.	\$1,493,768 66

Mr. HANSON: What does that particular item, "Transportation for Investment" mean?

Mr. FAIRWEATHER: When we move material in connection with betterment work, the cost of moving it is charged to capital; whereas if it is a question of maintenance we do not charge freight rates on the material.

Mr. GEARY: Is any part of the expense of your general officers pro rated in "Transportation"?

Mr. COOPER: Yes, sir. The Vice-President in charge of operation is also in charge of maintenance of equipment and maintenance of way, so we apportion his salary three ways, to Maintenance of Way, Maintenance of Equipment, and Transportation Expense. Then the portion allocated to Transportation Expense is divided into the different sections on the basis of train mileage.

Mr. HANSON: That is a standard arrangement?

Mr. COOPER: It is our own arrangement.

Sir HENRY THORNTON: It is the general practice on most railways.

Mr. COOPER: It is the correct practice.

Mr. FAIRWEATHER: (Reading):

A statement of this expense, analysing the primary accounts may be found on pages 45 to 48 of the annual report. The division of the expense between employees' compensation and material and miscellaneous is as follows:—

Mr. BELL (St. Antoine): We have a total here of \$1,493,768.66 deficit in your operating expenses—

Sir HENRY THORNTON: No, it is an increase.

Mr. BELL (St. Antoine): Turning to page 41 of your annual report, where the same figures are given, how is it that after taking into account Interest on Advances from the Dominion Government and other items, the net income deficit was \$5,138,026, as compared with the re-stated deficit for 1927 of \$5,129,717? How does the difference come in there? Do we understand that the Eastern Lines are losing that each year?

Mr. COOPER: The difference between this year's result and last year's is that in 1928 we had a contribution from the government to meet the deficit for the full twelve months, while in 1927 it was for only six months.

Mr. HANSON: That brings up a point which has been discussed in the House many times. Why should the government pay annually this so-called deficit on the Eastern Lines? Why is that made a matter of policy? Why should not the whole system pay the deficit of any particular portion of the lines? It makes us look like beggars down there and hurts our national pride.

Sir HENRY THORNTON: No, I do not think it makes you look like beggars, because the so-called Intercolonial railway was built and operated as an obligation to the maritime provinces by the government of Canada, and it would seem that it was only fair for the government to pay the expenses, particularly in view of the fact that to handle it in any other way would involve very difficult accounting questions and very considerable expense. It really does not make much difference which pocket it comes out of, and this method was hit upon as being the most economical, saving the most trouble, and involving the least complication.

Mr. HANSON: If that reason be a sound one, why not take us right up to Saint Rosalie where you found us?

Sir HENRY THORNTON: That came about in this fashion. When we undertook to organize the Canadian National system as an operating unit, we divided it to the best of our ability into three regions. When we came to the Atlantic region there was a great deal of discussion and a great deal of contention and much difference of opinion as to what the limitations of that region should be, between a number of people whose opinions I sought—a large number, including operating people, Ministers of the government, business men, and others whose opinions I thought would be worth while. We finally came

to the conclusion that the simplest and perhaps the best thing would be to fix the limitations of the Atlantic region where they now are. As a matter of fact, in so far as service and as the welfare of the maritime provinces themselves are concerned, I do not think it makes the slightest difference one way or the other.

Mr. CANTLEY: It made quite a difference in the 20 per cent.

Sir HENRY THORNTON: The governing feature was to develop those boundaries which from an operating point of view and the point of view of economy would give the best results. You can argue with great success this matter in half a dozen different ways.

Hon. Mr. DUNNING: It is important not to confuse the two things, the Eastern Lines as defined in the Maritime Rates Act and the Eastern Lines as defined by the railways for operating purposes. If they were extended to Ste. Rosalie and to Montreal in particular, I am afraid it would offset the object sought by the Maritime Rates Act, namely, to accord certain advantages within certain areas. Sir Andrew Rae Duncan set out the area, and I think if that area were extended westward the advantages which the maritimes expected to reap would not be reaped because of the competitive factors from the centres further west. Personally I would have no objection to giving consideration to extending the area of the Eastern Lines, but as I understand it the genesis of the Duncan report was to secure certain advantages within a limited area and to have the 20 per cent reduction applied to points further west would lessen the advantage to the maritime provinces.

Mr. HANSON: The representations made to the Duncan Commission were that the limits of the eastern region should be at Riviere du Loup. If that were extended to Montreal you would find that the annual deficit on the Eastern Lines would be smaller than it is to-day.

Hon. Mr. DUNNING: I will be glad to take cognizance, speaking from a legislative point of view, of any representations made to increase the limits to a point further west. They were made originally by the maritime representatives.

Mr. HANSON: There is almost a universal opinion in the maritime provinces that we were cut off unjustly at Riviere du Loup, when we should have gone to Montreal.

Hon. Mr. DUNNING: That is another question.

Mr. HANSON: I know it is, and the Maritime Rates Act should have ended at Montreal or Ste. Rosalie.

Sir HENRY THORNTON: If that had been done it would have been very difficult to have operated that system from Moncton, and it probably would have been found better to move the general offices of the Atlantic region to Quebec and also at that time there was a good deal of protest and objection on the part of certain people living in Quebec to the very change you have asked for. As a matter of fact, it does not make the slightest difference to the maritime provinces what the limitation of the eastern region is. It was fixed by the Duncan Report, with which we had nothing to do, and there seems to be a kind of supposition—where it originated, I do not know—that because the Atlantic region is operated at a deficit, somehow or other we do not give that same parental care, if one may use such an expression, to the maritimes. That is perfectly ridiculous, because all of the officers of the company are just as anxious to improve conditions in the maritimes, to improve our service, to improve our tracks, and to give the public of the maritimes the service they want, as we are in the province of Ontario or of British Columbia, or of any other province. To single out one part of Canada and say that that part of Canada is not receiving the same scrupulous and anxious care and attention as

any other part, is all wrong, and I would like to take advantage of this opportunity to correct that impression.

Mr. HANSON: You yourself at one time was very much impressed with the conditions to which you now refer and went so far as to say that you were to open a personal office in the city of Moncton and be there once every ten days.

Sir HENRY THORNTON: I do not think I said that. Canada is a big place and I am away about 75 per cent of my time, and I cannot circulate any faster than I do. I try to get to the maritimes often, and I want you to feel that we are doing everything we can to assist the business people of the maritimes to develop.

Mr. CANTLEY: I want to follow up what Mr. Hanson has said. The purpose of the whole matter as dealt with by Sir Andrew Rae Duncan was to enable to products of the maritime provinces to get to the central part of Canada. To carry that out effectively it should have ended at Montreal or Ste. Rosalie—

Hon. Mr. DUNNING: Would you say Quebec as well as Montreal?

Mr. CANTLEY: I want to get into Montreal. Take the steel business; there is no market east of Montreal.

Hon Mr. DUNNING: The reason I asked the question about Quebec was that personally I would be willing to give consideration to the extension of the limits. It is a matter for the government and the House of Commons, but how could you justify extending the 20 per cent reduction to Montreal without also extending it to the city of Quebec, which would represent a larger mileage for the goods to travel. There would be a discrimination there which would be very, very hard to justify.

Sir HENRY THORNTON: You would find that a great deal of stuff that is being distributed from Montreal and Quebec would be sent into the maritimes, and business would be taken away from the business people of the maritimes themselves.

Mr. CANTLEY: That is beside the question.

Sir HENRY THORNTON: It is a very important factor.

Mr. CANTLEY: Montreal is the gateway where our distribution begins.

Sir HENRY THORNTON: It works both ways.

Mr. CANTLEY: I am not disposed to argue that at all. I am confining myself to one thing. The Duncan Report was to enable the maritime provinces to get into the central part of Canada. The gateway is Montreal, not Riviere du Loup, not Diamond Junction, but Montreal, and the result is that 300 miles of that rate is not getting the advantage of the 20 per cent reduction which it was intended and expected we would get. That is as briefly as I can put the situation.

Hon Mr. DUNNING: I would be glad if the maritime members would give serious consideration to the reasons given by Sir Andrew Rae Duncan for recommending Diamond Junction and St. Rosalie as the termini of the eastern lines, because my impression from studying the evidence of the Maritime Boards of Trade is that they were anxious not to have the reduction go to Montreal and Quebec, because they did not want to expose their own area to the competition of the distribution houses of Montreal. I wish the members interested would look into that, because I am willing to hear representations on that at any time.

Mr. HANSON: I am not so interested in the Maritime Freight Rate Act and what the effect of the extension would be if carried on, as I am in the extension of the Atlantic region. I would like to study the other question before I expressed an opinion because I can see from the remarks of the Minister that there would be difficulty. What the people of the maritime provinces object to and have always objected to—and Sir Henry Thornton has not given any real valid reason

to explain it—is why they cut us off at Riviere du Loup. The people down there absolutely expected that the Atlantic region would go as far as the Canadian National Railway system, namely, into Montreal, before the co-ordination of all the roads, and they will never be satisfied until that is done.

Sir HENRY THORNTON: That may be. I do not know whether we will ever reach that blessed condition of satisfaction or not. I have been trying for six years to reach it, but as soon as one thing is settled another comes along.

Mr. GEARY: Was there not some suggestion that the government railway had been built with longer mileage for strategic reasons. That would be governed by Quebec? You do not claim there could be any waste mileage between Montreal and Quebec; the waste mileage is all east of Montreal.

Mr. HANSON: I think that is true of Montreal, but from Quebec to Campbellton is comparatively a barren region as far as traffic is concerned.

Sir HENRY THORNTON: It is not a productive region.

The CHAIRMAN: It is one of the best paying parts of the system.

Mr. GEARY: What does it produce?

The CHAIRMAN: Anything you can think of.

Hon. Mr. DUNNING: In order to help out on the dispute, may I suggest that Parliament has conveyed to the management full authority in connection with matters of this kind. I do not think that Parliament would likely want to say to the management that its operating division should end here or there; certainly I, as Minister, would not think of suggesting to Sir Henry Thornton that he should change any of his operating divisions. When we are discussing the area of the Maritime Rates Act, that is a different matter. I suggest Mr. Hanson's question concerns the sole matter of management.

Mr. McLEAN (Melfort): Will you tell us what effect it would have on the system if you did extend the Atlantic region into Montreal?

Mr. HUNGERFORD: That was a matter which was very carefully considered at the time the present limits were fixed. It so happens that Quebec is in the centre of lines radiating in every direction. We had a general superintendent there on account of the magnitude of the railway interests which made it necessary. His jurisdiction runs away north into Ontario, almost north of Lake Superior. To extend the Atlantic region would mean the addition of another division from Riviere du Loup to Ste. Rosalie, and placing it under the direction of the general manager at Moncton, and apart from the jurisdiction of the general superintendent situated in Quebec, from whose office windows can be seen the trains at Levis, it would be an awkward arrangement. The Quebec people do more business with Montreal than with Moncton and there were serious objections at that time.

Mr. HANSON: Quebec interfered and we do not get it. That is the answer.

Sir HENRY THORNTON: That is not quite right. It does not make any difference what we propose on this railway, there will always be a certain element who will object. Now, rightly or wrongly, our job and our duty is to consider as best we can all of these objections and to the best of our ability come to a decision. We did that in this case. We think we are right; you think we are not. I cannot say anything more. I tried, after consultation with all our officers and those in a position to give me advice, to come to the arrangement which was more economical and would best serve the various communities we reached.

Mr. CANTLEY: The arrangement is not satisfactory so far as the East is concerned. I fail to see from anything that has been said what interest the people of the city of Quebec have in the so-called eastern lines.

Sir HENRY THORNTON: You said you wanted to reach Quebec, and you want the people of Quebec to trade with you. If your statement is correct, why extend the limits of the eastern lines?

Mr. CANTLEY: Because we want to get the advantage of the 20 per cent freight rate reduction to the gateway of the central provinces.

Mr. HANSON: Where our customers begin.

Mr. CANTLEY: We have no trade to the east. You could not run the steel plants of Nova Scotia one week on all the traffic, outside of railway traffic, there is east of Montreal. We must get in there, or shut up shop.

Sir HENRY THORNTON: I would like to make this statement with respect to the general maritime situation. I believe I am perfectly safe in saying that the Canadian National Railway disburses annually in the maritime provinces, for labour, for coal, for steel, for purchases of different sorts, at least \$12,000,000 per annum. We are a very good customer, and I think that is something that should be fostered, rather than being deprecated.

Mr. HANSON: You get full value for your \$12,000,000.

Sir HENRY THORNTON: Yes, otherwise we would not pay it. But also those who sell get value received for what they sell. We are quite useful institutions to each other.

Mr. CANTLEY: We have never disputed that. I do not see what bearing that has on the question I am discussing. I give our friend the Minister credit for the astuteness which he shows which excluded the 20 per cent reduction in freight.

Hon. Mr. STEVENS: What additional sum of money would be required to pay the additional deficit if the Maritime Freight Rate Act was extended 300 miles from its present terminus to Montreal?

Sir HENRY THORNTON: That would take some time to prepare.

Hon. Mr. DUNNING: In answer to you, Colonel Cantley: you are giving me credit for more astuteness than I possess. I will say to the maritime members that I would appreciate your studying the question and meeting me with respect to a proposition to extend the limits of the area now benefiting by the 20 per cent. In framing the legislation I felt that Sir Andrew Rae Duncan had a good sound reason for setting Diamond Junction and Levis as the limits, and I did not go further than that. If there is any astuteness displayed it was by the maritime people themselves before the Duncan Commission. I have no doubt they had good reasons, and I wish you would examine those reasons and look into them. I have an open mind on this subject. The maritime people themselves before the Duncan Commission were responsible of fixing these terminals. My impression is that the advocacy of that limit came from the maritime people. I am subject to correction in that.

Sir HENRY THORNTON: It is just possible that the Auditor of Freight Receipts might be able to give the figures Mr. Stevens wants. Let us see what we can produce, and if we find it will run into a protracted period I will let you know. It may be, in the light of the facts expressed, we might make a close estimate.

Mr. GEARY: You run this Atlantic region from Moncton?

Sir HENRY THORNTON: Yes, the administrative offices for the region.

Mr. GEARY: Where is your competitor's office?

Sir HENRY THORNTON: That would be the C.P.R., of course. I suppose Montreal would have that.

Mr. HUNGERFORD: They have a general superintendent at St. John.

The CHAIRMAN: The supervision of the eastern division only goes to Rivière du Loup.

Mr. GEARY: Were your eastern lines segregated by the Act of 1927 as to accounts?

Sir HENRY THORNTON: No. The Intercolonial was, but the present so-called eastern lines was a new division.

Hon. Mr. DUNNING: The Intercolonial was dealt with in the same way that it always has been. Any deficit was in fact paid by a vote of Parliament, the same as it is to-day with respect to the Eastern Lines as a whole, but when the Maritime Rates Act was adopted, all of the former Canadian Northern lines down there were brought into the Eastern Lines, and were made subject to what had formerly been the situation with regard to the Intercolonial and also the Transcontinental, so the principle of paying the deficit on the Eastern Lines is not a new principle.

Mr. HANSON: You have extended the principle?

Hon. Mr. DUNNING: Yes, instead of applying only to those which were formerly a part of the Canadian Government Railway, we adopted a new principle with regard to paying the deficit. We did not adopt a new principle, but enlarged the application of it.

Mr. GEARY: The Intercolonial deficit up to 1927 was still kept outside of your general account and settled by Parliament?

Hon. Mr. DUNNING: Yes.

Mr. BELL (St. Antoine): There is a deficit each year on the operating results of the Eastern Lines of about \$3,500,000?

Sir HENRY THORNTON: I take it that is correct, yes.

Mr. BELL (St. Antoine): I think Mr. Appleton said that you are moving a lot more grain over the Eastern Lines now. Is there any improvement, or does the future look for any improvement in the Eastern Lines situation?

Sir HENRY THORNTON: I should say there ought to be an improvement. There has been a general improvement in economic conditions in the maritimes which has been noted in recent years. In the last year or so there has been a marked increase in traffic in the maritimes. Mr. Appleton is more familiar with that situation than any of the rest of us, and I think he can answer that question more intelligently than anybody else.

Mr. APPLETON: As far as the increase in traffic is concerned; we had a substantial increase this year. In the month of January we had an increase of 58 per cent. We diverted a great deal of our traffic over the Transcontinental on account of it being a better line, and the increase there was about 100 per cent. We had an increase in the grain traffic through the port of Halifax of about 700 per cent, and some slight increase through the port of St. John.

Hon. Mr. CHAPLIN: The more business you do, the more money the government of Canada seems to be paying.

Mr. BELL (St. Antoine): We have a deficit this year over last year of about \$300,000.

Sir HENRY THORNTON: This year it improves our position by \$300,000?

Mr. ABBOTT: That is right.

Sir HENRY THORNTON: For the first three months of this year the gross revenue on the eastern lines is increased by \$300,000. It is increased from \$6,712,552 to \$7,805,000. So that I would say that there was certainly improvement in business conditions in the Maritimes, if gross revenue is any indication.

Mr. BELL: Mr. Cooper has not quite made the answer to my question plain, after taking into account interest on advances from the Dominion Gov-

ernment and other items, the net income deficit was \$5,138,000, as compared with the previous deficit of \$5,129,717. How is that amount made up, and why is this? I would like to get at your system of keeping these accounts on the eastern lines this year. Does that mean that there is an annual deficit of \$5,138,000?

Mr. COOPER: Yes.

Mr. BELL: Operating deficit?

Mr. COOPER: No, there is a certain amount of interest. That is the net income deficit, after meeting all charges.

Hon. Mr. DUNNING: The aggregate deficit.

Mr. BELL: That is what I said a few minutes ago, that although your business has increased and you show on your operating an improvement so far as the Dominion of Canada is concerned, the amount we are paying out as a loss from the treasury is larger.

Sir HENRY THORNTON: You are paying out, of course, the twenty per cent each year.

Mr. McLEAN (Melfort): That is the way it is, the more business you do, with the twenty per cent basis, the more money you pay out.

Mr. BELL: Then according to Mr. Cantley we do not want to increase the business.

Sir HENRY THORNTON: Last year the deficit was about \$3,790,000. The year before that it was \$4,090,000 odd. We have improved the operating deficit by nearly \$300,000. I am looking at page 43.

Mr. GEARY: I was looking at the statement on page 41.

Sir HENRY THORNTON: If you will turn to page 43 you will find all the details of that set-out, as asked for by Mr. Chaplin. On page 43 you will find that last year the operating deficit was practically \$3,800,000 as compared with \$4,100,000 the year before. Then further down you find that the gross income deficit was \$3,482,000, as compared with \$3,746,000. Then if you go a little further down you find that the government contribution on account of the Maritime freights was \$5,138,000, as compared with \$2,332,000 the year before, but that was only a partial year.

Hon Mr. CHAPLIN: Six months.

Sir HENRY THORNTON: Of course if you reduce freight rates, necessarily you do not make the same amount of money on the additional business that you would on the higher freight rates; and Mr. Chaplin is quite right on that.

Mr. CANTLEY: You may increase the freight movement very largely?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Before we leave this, there is something I want to refer to. We are told here that there was a deficit on the eastern lines of \$5,000,000 and \$3,000,000 and so on, and the idea in the country is that the Intercolonial never had anything but a deficit, and that is not so. Over a period of twenty or twenty-five years we had not deficits but profits, running as high as \$1,000,000 even in the last year when Mr. Cochrane was Minister of Railways. Now I cannot understand, in view of that fact and of the large increase in traffic and the betterment of the road and the betterment of the rolling stock and of the engine equipment, how we are running into such figures as these. It is utterly beyond me. A larger density of traffic with better equipment and better road-bed.

Hon. Mr. DUNNING: I might point out that when you are discussing the operating deficits, in the old days no interest was charged on it on the Intercolonial and you, of course, now add an item here which never was present in

connection with the Government Railways as such. That is really the point which causes the difficulty.

Mr. HANSON: Is that the item which makes up the difference in capital costs?

Sir HENRY THORNTON: Colonel Cantley makes the statement that some years ago the Intercolonial Railway was profitable.

Mr. CANTLEY: That it had no deficit in operation.

Sir HENRY THORNTON: I cannot give you the reason for that offhand, but I can have an analysis made, and I will be glad to present a statement at some latter meeting which will perhaps clear up the point.

Hon. Mr. STEVENS: Does this item of operating include the contribution to the Maritime freight rates of \$5,138,000.

Sir HENRY THORNTON: No, it does not. If you will let Mr. Cooper answer the question, he will clear it up.

Mr. COOPER: If you turn over to page 44 it there shows that the Government contribution to meet the 20 per cent reduction in freight rates is credited to revenue.

Hon. Mr. STEVENS: That is the \$2,151,000.

Mr. COOPER: Yes, sir.

Hon. Mr. STEVENS: Where is the \$5,000,000?

Mr. COOPER: The \$5,000,000 is in addition to that.

Mr. HANSON: In other words, the eastern lines cost the treasury over \$5,000,000.

Mr. COOPER: Yes, but part of the \$5,000,000 is not a cash payment; something like \$900,000 is interest and other non-cash items are credits in favour of the government but we do not draw it down from the government.

Hon. Mr. CHAPLIN: That is shown on page 43.

Hon. Mr. STEVENS: Can you say how much is necessary to make up the operating expenses?

Mr. COOPER: The cash payment by the government in 1928, under votes 411 and 412, was \$2,151,527.75 plus \$4,200,356.51; that is about \$6,350,000.

Mr. HANSON: That came out of the treasury directly on account of the eastern lines?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And that allows no interest on investment for government advances?

Mr. COOPER: No.

Hon. Mr. CHAPLIN: For what period was that?

Mr. COOPER: That was the twelve months of 1928.

Sir HENRY THORNTON: If you take it, you will find the operating expenses and operating revenue, and you will find the last item below, item 551, the government contribution, which balances. You will find the gross earnings and expenses and everything in the first column on page 43. The whole thing is set forth there.

Mr. CANTLEY: Referring to the statement, item 546, interest on funded debt, what does that refer to?

Mr. COOPER: That is the interest on the outstanding bonds of the Halifax and Southwestern Railway.

Mr. BELL: Would it be possible, since you have taken over the National Railways, to get a statement as to the eastern lines showing how much they have cost? I asked that question because I think, in fairness to you in the

operation of the eastern lines, if there are to be reductions in rates then naturally there are going to be further deficits, and we might as well face the situation which is taking place regarding the eastern lines.

Sir HENRY THORNTON: The trouble is that prior to last year we kept the accounts separate for the Atlantic region, but not the account separate for the eastern lines.

Hon. Mr. DUNNING: But it must be borne in mind that so far as railway freight rates are a factor the railway revenues do not suffer one cent, because the contribution is taken in as operating revenue, quite properly, so that there is no question of reduced freight rates having anything to do with that deficit.

Sir HENRY THORNTON: The Minister is quite right in that.

Mr. CANTLEY: Item 547, interest on Dominion Government advances,—what does that mean?

Mr. COOPER: That is interest on government advances to the Halifax and Southwestern, etc., on which the government charge us interest, and we accrue it in the eastern lines accounts as a credit to the government.

Mr. HANSON: You have the interest on the funded debt, that is the \$155,000. That would be on outstanding bonds on the Halifax and Southwestern Railway?

Mr. COOPER: Yes.

Mr. HANSON: What advances did the government make to the Halifax and Southwestern,—was that for rehabilitation?

Mr. COOPER: They have made advances for capital and deficits over a long period of years, since the Canadian Northern received advances from the Dominion.

Hon. Mr. DUNNING: That is the old debt which we have on the whole system.

Mr. HANSON: That is part and parcel of that?

Hon. Mr. DUNNING: Yes.

Mr. GEARY: Have we a comparison of 1926 and 1927 in this also?

Sir HENRY THORNTON: I do not think so.

Mr. CANTLEY: How does it come that the interest is greater in 1928 than in 1927?

Mr. COOPER: Because the government have made further advances. They are making advances for capital expenditures but not for operating deficits. They are making cash payments for deficits.

Mr. CANTLEY: My point is that the amount charged on that account last year is greater than the year before by about \$12,000.

Mr. COOPER: That is interest on additional advances.

Mr. CANTLEY: Why do you deal with advances on the portion of the system differently from advances on the Intercolonial system?

Mr. COOPER: Because the advances by the government to the Intercolonial Railway have always been free of interest, and have been charged to the Consolidated Debt Account; but the advances to the other lines have always been charged with interest.

Mr. CANTLEY: But why is this item \$12,000 more this year than the year before?

Mr. COOPER:—Because of additional advances in the meantime.

The CHAIRMAN: Go on with "Labour."

Mr. FAIRWEATHER (Reading):—

Labour	1927	1928	Increase
Maintenance of Way and Structures.. . . .	\$ 3,983,715	\$ 4,215,493	\$ 231,778
Maintenance of Equipment.. . . .	2,918,162	2,952,250	34,088
Traffic.. . . .	364,596	392,141	27,545
Transportation.. . . .	9,557,979	10,127,220	569,241
Miscellaneous.. . . .	217,571	220,754	3,183
General.. . . .	634,330	654,539	20,209
Total.. . . .	\$17,676,353	\$18,562,397	\$ 886,044
Material and Miscellaneous			
Maintenance of Way and Structures.. . . .	\$ 3,381,529	\$ 3,781,936	\$ 400,407
Maintenance of Equipment.. . . .	2,638,776	2,712,400	73,624
Traffic.. . . .	400,080	416,900	16,820
Transportation.. . . .	5,103,591	5,213,665	110,064
Miscellaneous.. . . .	179,048	180,397	1,349
General.. . . .	647,892	668,566	20,674
Transportation for Investment Cr.. . . .	37,686	52,899	15,213
Total.. . . .	\$12,313,230	\$12,920,955	\$ 607,725

The increase in employees' compensation is caused by increased rates of pay, \$218,412; and increased hours worked, \$667,632.

Mr. HANSON: In what particular branches were the increased rates of pay?

Mr. COOPER: That is explained down below.

Mr. HANSON: Yes, alright.

Mr. FAIRWEATHER: (reading):—

	Rates of Pay		Hours		Net
	Decrease	Increase	Decrease	Increase	Increase
Mtce. of W. & S.. . . .	\$ 69,851	....	....	\$301,629	\$231,778
Mtce. of Equipment.. . . .	....	\$ 49,064	\$ 14,976	....	34,088
Traffic.. . . .	....	6,858	....	20,687	27,545
Transportation.. . . .	....	217,033	....	352,208	569,241
Miscellaneous.. . . .	....	3,861	678	....	3,183
General.. . . .	....	11,447	....	8,762	20,209
Total.. . . .		\$218,412		\$667,632	\$886,044

The increase in material and miscellaneous is made up:—

	Price Changes		Increase in Quantity	Net
	Decrease	Increase		Increase
Mtce. of Way & Structures.. . . .	....	\$ 9,905	\$390,502	\$400,407
Mtce. of Equipment.. . . .	\$ 61,582	....	135,208	73,624
Traffic.. . . .	....	....	16,820	16,820
Transportation.. . . .	96,795	....	206,859	110,064
Miscellaneous.. . . .	4,190	....	5,539	1,349
General.. . . .	15,529	....	36,203	20,674
Transp. for Invest. Cr.. . . .	....	....	15,213	15,213
Total.. . . .	\$168,191		\$775,916	\$607,725

Mr. GEARY: This a good place to adjourn? If I might say so, it would be a good thing if we could get out of here by a quarter to one.

Hon. Mr. DUNNING: Should we not determine, Mr. Chairman, what we should take up to-morrow? My suggestion is that we should take up the accounts in detail.

Sir HENRY THORNTON: I might say that you have now covered pretty thoroughly the items which are chargeable to expenses. Now you can take the annual report and can again go over the same ground which you have just gone over more in detail. But subject to your opinion, it occurs to me that you have now pretty well gone over all the items relating to the operating expenses. You might, if you wish, consider that closed. Of course you can go over all that again in the annual report; but I do not think you will produce any new facts.

Mr. GEARY: These are just primary accounts.

Mr. JENKINS: There is one matter in reference to the Atlantic region. What are you doing now, for instance, in connection with the grain you are carrying down to Halifax, say? Are you giving us credit on that?

Sir HENRY THORNTON: Oh, yes.

Mr. JENKINS: Are you making any money on that?

Sir HENRY THORNTON: No.

Mr. JENKINS: Are you losing money?

Sir HENRY THORNTON: Yes.

Hon. Mr. DUNNING: May I say, Mr. Jenkins, that if you ask any railway official if they are making money on any particular class of traffic, they will demonstrate to you that they are not.

Sir HENRY THORNTON: If you ask me if we make any money on the grain we move to Halifax I would say no, we do not. But all the gross earnings which accrue on the grain go into the gross figures and are shown there.

The CHAIRMAN: I understand that to-morrow you do not intend to go into the detailed expenses, which you have already gone through?

Mr. GEARY: I think we should take up the balance sheet.

Sir HENRY THORNTON: I think that is wise.

Mr. CANTLEY: Are the auditors here?

Sir HENRY THORNTON: Mr. Cooper is here. Touche & Company audit the accounts, and you will find their certificate here. It is a continuous audit.

Hon. Mr. CHAPLIN: I think Touche & Company should have someone here to represent them. I would like to find out what they audit.

Mr. COOPER: The Canadian National accounts are audited from the Toronto office by Mr. Mathews.

Mr. GEARY: It is a continuous audit that Touche carry on?

Mr. COOPER: Yes, they have men in the office all the time. But there is no information they can give that we cannot give you.

Hon. Mr. CHAPLIN: I want the auditor to state what they do.

Sir HENRY THORNTON: Oh, certainly.

The CHAIRMAN: Will you arrange to have him here, Sir Henry?

Sir HENRY THORNTON: Oh, yes.

The Committee adjourned until Thursday, April 25, 1929, at 11 o'clock.



SESSION 1929
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4—THURSDAY, 25th APRIL, 1929

WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

Mr. O. A. Matthews, of George A. Touche & Co., Chartered Accountants.

MINUTES OF PROCEEDINGS

ROOM 268, HOUSE OF COMMONS,
THURSDAY, 25th April, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m., Sir Eugene Fiset, the Chairman, presided.

Members present: Messrs. Cantley, Duff, Bunning, Geary, Gray, Hanson, Jelliff, Jenkins, McLean (*Melfort*), Milne, Power, Stevens.

In attendance: Sir Henry Thornton, President, Canadian National Railways, with members of his staff.

Mr. O. A. Matthews of Messrs. George A. Touche & Co., Chartered Accountants, auditors of the accounts of the Canadian National Railways.

Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

Typewritten replies were submitted by Sir Henry Thornton to several questions asked by members at the last meeting of the Committee.

Mr. Matthews of Messrs. George A. Touche & Co., Chartered Accountants, auditors of this Report, was called and examined as to the auditing methods employed. Mr. Matthews retired.

The Committee proceeded to the consideration of the Consolidated Balance Sheet, as contained on pages 14 and 15. The items appearing as Assets, being Nos. 701 to 727, both inclusive, were severally called and considered.

At 1 p.m. the Committee adjourned, until to-morrow, 26th instant, at 11 a.m.

JOHN T. DUN,
Clerk of the Committee.



MINUTES OF EVIDENCE

COMMITTEE ROOM 268,
HOUSE OF COMMONS,
THURSDAY, April 25, 1929.

The Select Standing Committee on Railways and Shipping met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: Sir Henry, I think you have answers to certain questions which were asked yesterday.

Sir HENRY THORNTON: Yes. Mr. McLean (Melfort) asked if the loss on dining and buffet service is decreasing annually. In 1928 the loss was \$632,317.58 and in 1927 the loss was \$583,394.41. The increased loss is due to additional service. I should say that on the basis of these figures there probably is not very much change.

Hon. Mr. Stevens asked what additional sum of money would be required to pay the deficit on the Eastern Lines if the 20 per cent reduction under the Maritime Freight Rates Act were extended to the lines from Levis and Diamond Junction to Montreal. To get even an approximation of this sum would require a tremendous amount of work.

Hon. Mr. STEVENS: Do not bother about it further.

Sir HENRY THORNTON: Mr. Bell (St. Antoine) asked how much have the Eastern Lines cost Canada since the present management of the Canadian National Railways assumed office. This statement includes the revenues and expenses and net losses from 1923 to 1928, inclusive, and is as follows:—

Year	Revenues		Expenses		Net Loss	
	\$	cts.	\$	cts.	\$	cts.
1923.....	26,297,883	52	30,537,434	99	4,239,551	47
1924.....	24,449,496	92	26,907,259	36	2,457,762	44
1925.....	24,074,879	01	26,117,205	05	2,042,326	04
1926.....	25,104,984	08	28,919,415	35	3,814,431	27
1927.....	26,162,744	12*	29,989,582	86	3,826,838	74
1928.....	27,959,347	30*	31,483,351	52	3,524,004	22
	154,049,334	95	173,954,249	13	19,904,914	18

NOTE.—The figures prior to year 1927 are the Atlantic Region figures, plus an arbitrary adjustment in respect of lines west of Monk and Rivière du Loup.

*Year 1927 revenues include \$931,809.89 and year 1928 revenues include \$2,151,527.75 contributed by the Government under the Maritime Freight Rates Act.

Mr. Hanson asked, what are the charges to Maintenance of Way and Structures on the Atlantic region for the last six years. The answer is as follows:—

1923.....	\$	6,505,697	24
1924.....		5,217,435	35
1925.....		5,215,136	48
1926.....		6,833,660	40
*1927.....		6,827,581	02
*1928.....		7,413,617	02

*Years 1927 and 1928 are Eastern Lines' figures, less a mileage proportion for lines west of Monk and Rivière du Loup.

[Sir Henry W. Thornton.]

Hon. Mr. Stevens asked what proportion of the different classes of equipment, freight and passenger are now rented on the system, and what were the proportions for the last four years. This is rather a difficult statement to read. Shall I just put it on the record?

Hon. Mr. STEVENS: Yes, that will be all right.

FREIGHT EQUIPMENT

Year	Freight cars owned	Excess number of foreign cars on system lines over system cars on foreign lines, under usual interchange arrangements
1925.....	126,399	4,708
1926.....	123,573	10,386
1927.....	123,996	9,873
1928.....	119,984	16,442

PASSENGER EQUIPMENT

Year	Passenger cars owned	Rented (Seasonal only)
1925.....	3,564	27 sleepers 4 parlour cars 39 coaches 65 express cars
1926.....	3,588	27 sleepers 55 express cars
1927.....	3,689	15 coaches 50 express cars
1928.....	3,721	2 parlour cars 60 express cars

NOTE.—In addition, in 1928, there were a few passenger cars temporarily loaned to us by the Delaware & Hudson Company and the Great Northern Railway.

Hon. Mr. DUNNING: There is one qualification to that which arises, if I am correct in assuming that the unit has increased in capacity during that year.

Sir HENRY THORNTON: Yes, you always have to take into consideration the fact that the capacity of cars is constantly increasing; that is to say, 10,000 cars to-day will carry more freight than 10,000 cars of twenty years ago.

Mr. GEARY: What lines originally comprised what are now the Eastern Lines?

Mr. FAIRWEATHER: The Eastern Lines comprised the Intercolonial Railway, the National Transcontinental Railway from Diamond Junction to Moncton, the Halifax and Southwestern Railway, the Prince Edward Island Railway and the Inverness Railway.

Hon. Mr. DUNNING: Are not some of the old Canadian Northern branch lines included?

Mr. FAIRWEATHER: The Halifax and Southwestern.

Mr. HANSON: And the St. John and Quebec Railway.

Mr. FAIRWEATHER: That is part of the Intercolonial.

[Sir Henry W. Thornton.]

Mr. GEARY: The Halifax and Southwestern was government owned?

Mr. FAIRWEATHER: No; it was part of the Canadian Northern.

Mr. GEARY: Taken over with the Canadian government lines?

Mr. FAIRWEATHER: Yes.

Mr. GEARY: And government owned in that sense?

Mr. FAIRWEATHER: Yes.

The CHAIRMAN: Hon. Mr. Chaplin asked yesterday that we have one of the two auditors here this morning. Mr. Matthews is here, but Mr. Chaplin is not.

Sir HENRY THORNTON: Might it not be a good idea to send him word to see if he could manage to be here?

Hon. Mr. STEVENS: While Mr. Hanson is out, may I ask, Sir Henry, this question in regard to the question which I asked yesterday. The answer before me indicates this, first in regard to freight cars, that in the year 1925 freight cars owned by the system were 126,399; in the year 1928, freight cars owned by the system were 119,984; or a shrinkage of approximately 6,000 of freight cars owned by the system.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: In the same period, that is in 1925, the excess of foreign cars on the system over the system's cars on foreign roads was 4,700; in 1928, it was 18,442.

Sir HENRY THORNTON: 16,000 odd. It is not very clearly typed.

Hon. Mr. STEVENS: I will make the correction. 16,442, or virtually an increase of approximately 12,000.

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: Sir Henry, would not that indicate that on the question of equipment the road was rather starving itself?

Sir HENRY THORNTON: It might indicate that, if there were no knowledge of the underlying facts.

Hon. Mr. STEVENS: That is what we would like to have you tell us.

Sir HENRY THORNTON: What has happened is this. It is true that the actual number of units has decreased from 126,000 roughly to 120,000, and that difference is due to retirements. Now those cars that have been retired have been replaced by cars of much greater carrying capacity, much greater service ability; that is to say, you judge the freight car equivalent of a railroad not exclusively by the number of cars that it may have in its service but also by the character of those cars and their usefulness. On that basis, the actual improvement in the condition of the equipment has been about twenty per cent over that of 1925. In other words, we would say that the usefulness of our equipment for carrying purposes is more efficient in 1928 than it was in 1925.

Hon. Mr. STEVENS: Just a moment, Sir Henry. I must say I scarcely follow you there. You do not mean to suggest that the 119,000 cars, even with the increased capacity of the new cars which have been added in that four year period, would exceed the tonnage capacity of the 126,000?

Sir HENRY THORNTON: Yes I do. That is exactly what I mean. What I mean to say is—

Hon. Mr. STEVENS: Just a further question right there. How many cars have been added in that period?

Sir HENRY THORNTON: While I am waiting for that information, may I pass on to the other part of your question, Mr. Stevens, that is to say, the

[Sir Henry W. Thornton.]

increase in the use of foreign cars from 4,000 to 16,000. That is largely and almost entirely to be explained by the increase in business that we have experienced. Now in our business, when business increases we can do one of two things, we can either buy enough cars to take care of that business without the employment of foreign cars, or we can avail ourselves of the use of foreign cars, at the usual per diem rate; or there is a third thing that we can do, which is a little of each. Our large freight car requirements for carrying purposes is seasonal. There is a very heavy demand which comes on us when the crop comes in. That demand means that we commence in June, and sometimes earlier, to distribute empty grain cars at the various stations through the west, in order to be ready for the movement of the crop; and those cars will stand idle for a good many days; perhaps the average would be something like thirty days. All of that means, together with the movement of the crop itself, very heavy seasonal demands for equipment. It would not be economical, certainly under present conditions, for the Canadian National Railway to equip itself by the purchase of all the cars which would be needed for such a seasonal movement, because they would not be of any use the rest of the year. Consequently we think it more economical to avail ourselves of the use of foreign cars for a seasonal movement of that character. That explains partly the use of the number of foreign cars which we have shown. And, secondly, the general increase in the Company's business, particularly the very large increase we have had in the volume of the crop in the past few years would explain the rest of the difference. Is that clear, Mr. Stevens?

Hon. Mr. STEVENS: Oh yes, I cannot say that I am convinced. I cannot say that it is quite clear.

Sir HENRY THORNTON: All that I can tell you is to tell you the truth.

Hon. Mr. STEVENS: I am not questioning that. But I do offer this suggestion, that it looks to me as a rather precarious position that you are in, in depending upon foreign cars. You see you have an increase of foreign cars of about 12,000, which is a very large increase in four years in excess of your cars of foreign systems. Supposing the foreign companies were to start, as they did after the war, when the United States Government turned back the railways, and there was a wholesale demand for the return of cars and a strenuous effort made, and supposing such a move were made suddenly, as such moves always come, would you not find yourself in an awkward position?

Sir HENRY THORNTON: We have not had any trouble and do not anticipate any trouble. I might say that even if I had at my disposal as the head of this railway all the capital necessary to build equipment so as to do away with the use of a single foreign car, I would not do it; nor would I depart from the policy which we are now following, and which I believe to be in the long run the most economical policy on the part of the company.

Of course those are things which necessarily involve some knowledge of transport and transportation problems, and I can tell you that so far as I have any knowledge of the business or the profession, that is my considered opinion. Others may differ with me.

Hon. Mr. STEVENS: I could not put my opinion against yours, and would not presume to do so.

Sir HENRY THORNTON: On the contrary, I would very humbly consider anything which you might suggest.

Hon. Mr. DUNNING: I have the Canadian Pacific statement here, and adding together the classes of cars listed, which would fall within the classes referred to, the Canadian Pacific Railway has just over 99,000 in those classes of cars. That appears to be fairly comparable, having in mind the difference in mileage; freight and cattle cars about 90,700; conductors' vans, 1,395.

[Sir Henry W. Thornton.]

Boarding, tool and auxiliary cars make up the balance of the total which is just over 99,000. Of course they do not give any information in the C.P.R. annual report of the number of cars rented, so that we cannot make the comparison there.

Mr. POWER: Are there certain seasons, Sir Henry, when we have more of our cars in the United States?

Sir HENRY THORNTON: Oh yes, it fluctuates with the seasonal movement of different kinds of traffic. Our arrangements with the American railroads have been extremely agreeable. For instance, last year I anticipated a pretty heavy crop movement and I took the question up with some of the American railways for seasonal assistance, and we got it. And in the same way we send our cars over to them.

Mr. HANSON: It balances up?

Sir HENRY THORNTON: Yes, more or less, it balances up. Just another thing in reference to the question which Mr. Stevens asked. Last year we bought 4,000 new cars and 6,700 cars are on order. In other words, we practically have new, with what has been bought and what is under construction, 10,700 new cars.

Mr. POWER: What is the annual wastage of cars?

Sir HENRY THORNTON: About 3,000 cars a year.

Mr. POWER: So that you are keeping ahead as well as you can?

Sir HENRY THORNTON: Oh yes.

Hon. Mr. DUNNING: Last year some information was asked for about the old cars which the company had, and I remember the information given was that the 40,000 cars would be eliminated in about one year from then. Bearing on that, I understand that the new cars are of not less than 80,000 pounds capacity.

Sir HENRY THORNTON: Yes, not less than that, and some of them more.

Hon. Mr. DUNNING: And some of them 100,000—and that is very important.

Sir HENRY THORNTON: As a matter of fact we have certain problems in connection with our equipment to be worked out. A good deal of our equipment, when the government got possession of these railways, was a wooden type; and like all wooden cars they begin to go more or less about the same time. Now we have been trying for the last six years to sort of massage that problem out of our equipment; but it has got to be done with some recognition of the length of our purse. And that is what any private company would do; they would not rush in and buy a whole lot of new cars and try to solve their problem all in the first year or so. It is somewhat the same problem that we have had in our maintenance, in the condition of our tracks. As the earnings have increased, and as the business has increased, as the net earnings of the railway have permitted, we have correspondingly increased our efforts to get rid of this obsolete equipment, and also to improve the track. Now, that will probably take a period of some years to get rid of entirely, but it ought to be done, as I say, intelligently and with caution and with some regard to the finances of the company.

Mr. HANSON: That seems reasonable.

Hon. Mr. DUNNING: From what Mr. Hungerford tells me apparently 120,000 pound cars are the requirement.

Sir HENRY THORNTON: Yes.

Mr. GEARY: What part of your cars goes first.

Sir HENRY THORNTON: Mr. Hungerford can probably answer that better than I can.

[Sir Henry W. Thornton.]

Mr. HUNGERFORD: I think all parts of the trucks go about uniformly. The wearing-out process is practically uniform.

Mr. McLEAN (Melfort): And the trucks would probably be of no use, anyway, after the body of the car has gone.

Mr. HUNGERFORD: There is no uniformity.

The CHAIRMAN: Gentlemen, we have heard Sir Henry Thornton on the analysis, and it has been suggested that the operating expenses would not be gone into in detail. Is it your desire that we should consider the balance of the report now, or shall we wait until Mr. Chaplin arrives?

Hon. Mr. STEVENS: Mr. Chaplin will not be able to be here. I think we could ask Mr. Matthews a few questions.

OVERTON A. MATTHEWS called.

The CHAIRMAN: Turn to pages 14 and 15, Mr. Matthews.

By Mr. Geary:

Q. Before the evidence goes on, Mr. Chairman, I was going to ask Mr. Matthews this; are you responsible for the form in which this certificate appears?—A. Yes.

Q. Is that the usual form of your firm?—A. That is our usual form issued on our American Railways.

Q. I notice it is quite different from that of the C.P.R. The C.P.R. have a firm of auditors, Price, Waterhouse and Company of England. I used to think of them as of Montreal; are they of England?—A. That is their headquarters.

Q. They say that the balance sheet shows the true financial position of the company at that date, as compared with your certificate, which says that it exhibits a true and correct view of the affairs of the system. Is there any significance in the change?—A. No, Colonel Geary, except that perhaps every firm have their own style of certificate. There is little difference in the effect of those two clauses.

Q. Is there any?—A. Will you just read Price, Waterhouse and Company's again, please?

Q. There it is, at the bottom of the page, on the right hand side?—A. I would say that there is no difference.

Q. Then yours means that this balance sheet exhibits, as they term it, the true financial position of the company?—A. Exactly.

Q. It just struck me that there might be a little difference.

Mr. HANSON: They are a little extra cautious.

WITNESS: As I say, every firm of accountants, like lawyers, have their own phraseology, to say the same thing.

Mr. HANSON: I do not think that is quite true.

Mr. GEARY: The only difference is that lawyers have to decide what you mean, when you put in a certificate.

WITNESS: It is the same, practically.

By Mr. Geary:

Q. While I am on this, I see that you have accepted these investments, starting at 701?—A. The three accounts, Mr. Geary, 701, 702, and 705.

Q. These you accepted as of the 1st of January, 1923?—A. There is no other way that that could be done. For instance, included in the Canadian

[Mr. O. A. Matthews.]

National property accounts are the accumulated property investments of the Canadian Government Railways, the Grand Trunk, that started seventy-five years ago. Obviously we have to make clear the point at which we start the investment account.

By Mr. Hanson:

Q. For your own protection?—A. Yes, to know where it did start.

By Mr. Geary:

Q. You take their inventory?—A. There is no other way, Mr. Geary. What to-day would be accepted as a basis of capital expenditure, distribution as between capital and income, was not the basis of twenty-five or fifty years ago. I know even in the twenty years I have been in this business on American railways, there have been changes, and in Canada particularly. When we used to audit the old Canadian Northern fifteen years ago, they were operating under a basis entirely different from what the Interstate Commerce Commission prescribed, and while they operated on a common sense basis, it was not exactly the way we would base the expenditures to-day, because years bring changes of view, changed conditions of accounting, the same as in operation, so that it would be obviously impossible to bring the expenditure basis from 1850 up to 1923 on anything like a uniform basis. We therefore make our position clear.

Q. Whatever they do in 1923, in their balance sheet— —A. We start from there, but from there on we accept full responsibility for the capital charges.

By Mr. Hanson:

Q. Your point is that there has been an evolution in the science of accounting in twenty-five years?—A. Not so much in the twenty-five years. There has been in some of our Canadian properties not so much in the American properties, because the Interstate Commerce Commission classification has been more uniform than the ordinary Canadian property, because we have not had a standard.

By Mr. Geary:

Q. Do you adopt the Interstate Commerce Commission's standard entirely? —A. Well, Mr. Geary, there is one principal exception to that. We work under the Interstate Commerce Commission's classification for the Canadian National the same as we do for some other American railways for which we are auditors with the one exception of the policy of depreciation. That is a rather lengthy subject. If you want me to give you our ideas on that, why we fall in with the Canadian National policy on the retirement basis rather than on a theoretical depreciation, I will tell you, but that is the main exception.

Q. I would like the practical working out of it rather than the theory; I know it is very long?—A. It is something like religion and politics—one never gets to the finish of it. There are two schools of thought, in the matter of depreciation for railways particularly; one is a theoretical depreciation. That sets out the average life, and accrues against that a certain percentage of depreciation, on the theory that after twenty-five years a box car will cease to exist. That is all very well in theory, but unfortunately matters of obsolescence and so forth intervene, that very often upset completely the figures that have been set up. The Canadian National have adopted as opposed to that theoretical depreciation—

Q. I suppose they have a mortality table?—A. For reasonable certainty, but obsolescence is impossible, because no one can foretell the changes which

[Mr. O. A. Matthews.]

may take place in the types of equipment particularly. The Canadian National have up to this time worked on the basis of a retirement policy that is actual depreciation, if you care to put it that way. One has to be very careful in the acceptance of any such accounting policy. For instance, if this property were new, their present policy would not be acceptable. If we as auditors had any feeling that the operating department were withholding from the accounts, the reflection of the retirements other than had or should have been made, again that policy would not be acceptable. But the ground upon which we accept the retirement basis is this, that the Canadian National Railways as an operating entity, and taking into account all the operating entities that comprise it, have been in existence a great many years, therefore, there have been from the first year of the System considerable retirements, and continuously so. We have been in touch with this property from one end of the system to the other, as far as we consider it necessary, in order to determine whether the Operating Department were supplying the Auditing Department with figures which were a fair reflection of the retirements, and we have found this, as auditors as well of American properties, that the retirements during a period of years over a big system, where you have retirements on a fairly even basis over a period of years, your income account is in the long run as nearly correct as a great many of the theoretical estimates that are made.

Q. The income account?—A. The income account, because your income account reflects the retirements, or the amount of depreciation provided. I may say that opposed to that the Interstate Commerce Commission have been giving a great deal of attention to this question of depreciation. I think it was in their Order No. 15,100, issued some time ago, that they carried the theory of depreciation to an extreme point. Heretofore they had been applying depreciation only on equipment, but they extended it in this proposal and, as was expected, the American properties took such exception to the impracticability of many of the clauses that it has been held up, and nothing has been done. Prior to that time, the Interstate Commerce Commission had made depreciation on equipment, obligatory on the American lines, but they have left it now to the discretion of the respective properties.

Q. They have left it discretionary?—A. The amount of depreciation. I have in mind one road which used to allow one quarter of one per cent; another road doing well might allow four per cent on their equipment and so on. Our feeling on depreciation is that the Canadian National in the matter of retirement accounting, all those other things being proper, in our opinion the income account is fairly reflective of what the operations have been for that year with equal accuracy as if the information had been provided on a theoretical basis.

By Mr. Hanson:

Q. The sum was checked up?—A. We have access to all the operating records. We go right back to the superintendents' offices, to the road-masters' offices, where we think it necessary; the shops, the chief of car equipment, the chief of motor power; all these records are available to us for any purpose.

By the Chairman:

Q. At all times?—A. At all times.

By Mr. Geary:

Q. You use these to split disbursements into capital and operating?—A. No. This is just on the question of retirements, because the question of retirements is a very important one, in that it relates itself to the depreciation ele-

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ments. You see we would not be prepared to give a certificate on the income account knowing that the depreciation had not been theoretically provided for if we did not feel well satisfied that the retirement gave a fair reflection of the equipment. The question of capitalization is another story entirely.

By Hon. Mr. Stevens:

Q. On the question of equipment retirements, Mr. Matthews, the report shows, if I recall rightly, 4,200 and some odd freight cars retired last year; 4,438 system cars were retired in 1928?—A. I have not the figures.

Q. That is the figure. I am going to put a hypothetical question upon these figures. Sir Henry Thornton tells us that those are largely 30,000-pound cars?

Mr. MATTHEWS: 30-ton box cars.

Hon. Mr. STEVENS: Well, they would represent the cost of approximately what, \$700?

Mr. MATTHEWS: Some of them would run as low as \$600.

Mr. COOPER: The average cost is about \$850.

Mr. MATTHEWS: It depends on when they were bought.

Hon. Mr. STEVENS: They are replaced with those 120,000 pound cars, and they will cost what?

Mr. COOPER: About \$2,800.

Hon. Mr. STEVENS: You retire, we will say, the 4,438 at \$850, and that would be the retirement sum—

Mr. MATTHEWS: Less salvage.

Hon. Mr. STEVENS: Which amounts to approximately how much, Mr. Hungerford?

Mr. HUNGERFORD: Perhaps \$100.

Hon. Mr. STEVENS: We will say, therefore, \$750 is the average for the retirement of the 4,438. These are replaced with a similar number at \$2,800 a car. Where do you reflect, and how do you distribute them?

Mr. MATTHEWS: The original sum is \$850, we will say, Mr. Stevens. The first thing is, that is credited to the property account because it has ceased to exist; the \$750 is charged into your operating expenses as retirements, and the \$100 or \$50 is charged into your stores as the value of your scrap; the other one is set up as in equipment—

Hon. Mr. STEVENS: In full?

Mr. MATTHEWS: In full, because it is the present asset. The other asset has ceased to exist as a freight car. It only has a scrap value of \$100 and it is reflected in 716, Material and Supplies.

Hon. Mr. STEVENS: I am not criticizing; I am just asking for information. Do you consider that a fair presentation?

Mr. MATTHEWS: Yes, sir, and there is no other way. It is not only fair but it is the established precedent all over America on railroad accounting.

Hon. Mr. STEVENS: Except theoretical depreciation?

Mr. MATTHEWS: Yes, that is what I have said, Mr. Stevens. Taking it all in all, for instance, if this road were one hundred miles long and you retired the only round house you had in one year you see the theory would not work. But we have the largest railroad in the world here, with 22,000 miles of track, and, as I say, taking the thing all in all for a period of years, you may have your instances here and there where it would appear to penalize, but taking it all in all, year in and year out, the result is as fair as anything that can be used on the basis of elementary depreciation of other companies outside of

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Canada. I am only speaking from income, Mr. Stevens, because I am afraid, from our point of view, this whole question of capital expenditures has been little understood. I do not know whether some of the things that I hear travelling around are indicative of the average opinion, but I heard a man not very long ago, going down to St. John, claim that all the figures that were in the Canadian National were sent down from Ottawa and copied in the books in Montreal and we just signed it. I thanked him for the information and said I was very sorry to hear that. Do not get me started on this question of capital expenditures because we will not be able to get away to-day. But on the question of capital expenditures I am prepared to answer any questions as to the matter of the division between capital account and income, in the matter of its apportionment, or on the question of retirements, or depreciation, or anything that affects that capital account. We stand behind it absolutely without any qualifications since the first of January, 1923, and we stand behind this Income Account without qualifications.

MR. GEARY: What Mr. Stevens is asking is just what you stated originally, that you have come to the conclusion that the retirement basis is the proper basis upon which to operate this road.

MR. MATTHEWS: That is a pretty difficult thing to say, because that would seem contradictory. If on the other hand an American railroad is using a depreciation basis we do not say to them, "Well, now, on some of that work we work on a retirement basis"; we weigh it up; we have to take each company as we find it.

MR. GEARY: But you believe that the retirement system is the one properly applicable to your company?

MR. MATTHEWS: We think it is a fair one. On the other hand, if the company decided to adopt the theoretical depreciation of the Interstate Commerce Commission, if the rates were reasonable we would not object, because there is no law in accounting. It is a matter of reasoned judgment and experience, and one cannot say that theoretical depreciation is right to the exclusion of the retirement policy; no one can say to the contrary. It is a matter of condition, and a matter of the experience of the particular firm doing the work, I suppose.

MR. GEARY: You get a turn-over cycle in a railroad of this sort to begin with, and you would have quite a job to reclassify this account?

MR. MATTHEWS: You mean for depreciation?

MR. GEARY: Yes.

MR. MATTHEWS: You certainly would, and there are many arguments against theoretical depreciation, and one is obsolescence.

MR. GEARY: I have used that as far as I could.

MR. MATTHEWS: We have all had a little experience on those questions. We feel that the income account fairly reflects in that it includes every question that enters into capital expenditures.

MR. GEARY: Referring to Mr. Stevens' question just how much was the big car?

MR. COOPER: \$2,800.

HON. MR. STEVENS: \$2,800 for the new car and \$850 for the old.

MR. GEARY: Would you state, in the language of the street, if possible, just where that would be reflected; take your income statement here and the one before us.

MR. MATTHEWS: Take the question of freight trains, 316, page 20. Just take a theoretical case. We have an old car valued at \$850 and are substituting a new car valued at \$2,800, with a theoretical salvage of \$100. The first entry

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is Debit Account 316, that is, freight train car retirements, \$750. Debit Account 716 in the Balance sheet, Material and Supplies, page 14, \$100. Credit Account 701, on the same sheet, with \$850. Now, that has taken care of the property account and the income up to that point. Then the purchase of the new equipment is a straight addition to 701 and a credit to 708.

Mr. GEARY: Yes, I see that. Then 701 keeps mounting does it?

Mr. MATTHEWS: Well, it keeps mounting, Mr. Geary, if the purchases exceed the retirements.

Mr. GEARY: Yes, that is what I mean, on the instance that you have given us.

Mr. MATTHEWS: Yes, if the purchases exceed the retirements it mounts. If a road was retiring more than it purchased the property account would go down.

Hon. Mr. STEVENS: My question a moment ago was directed—and it is the only question in my mind—as to the fairness of this method; that is, the difference between the retiring of the \$850 freight car, replacing it with a \$2,800 freight car, and crediting the assets shown with the full \$850.

Mr. MATTHEWS: We credit the assets with \$850 and debit the assets with \$2,800.

Hon. Mr. STEVENS: You are quite right, debit the assets with \$2,800. The question in my mind is whether that is fair to the system.

Mr. MATTHEWS: Supposing, Mr. Stevens, you were operating a railroad with one freight car and this freight car was retired; you bought a new one, and in submitting your balance sheet would you not expect to find in that \$2,800? That is the car you have got, that is the theory.

Hon. Mr. STEVENS: I quite understand the theory.

Mr. MATTHEWS: That is the fact, is it not?

Hon. Mr. STEVENS: But you have on the system one hundred and some odd thousand cars. You have a car which we will say this year has done a certain amount of revenue freight work, and it is an \$850 car. You retire that car and you replace it with a car that will carry double the amount but its cost is \$2,800. Now, the question is whether your income from the operation of a \$2,800 car is going to be as profitable to the company as the income from the old \$850 car?

Mr. MATTHEWS: It is a difference in costs—

Hon. Mr. STEVENS: You can increase your assets, but is it a true reflection of your company's condition?

Mr. MATTHEWS: I am afraid I cannot agree with that, sir.

Hon. Mr. STEVENS: That is the question in my mind.

Mr. MATTHEWS: True condition is a pretty definite statement. I think the true condition is that the property has an asset of \$2,800.

Hon. Mr. STEVENS: At the present time you are replacing old equipment with new equipment, and this applies more perhaps to the motive power than it does to the car, very expensive motive power, and if you set up a depreciation account now and then I could appreciate the real soundness of the system that you are following.

Mr. MATTHEWS: Well, Mr. Stevens, I am afraid I have set out our views. I must say that I have attended a great many meetings and gatherings in the United States and Canada, of men who have given their lives to the question of railroad accounting and there are two distinct schools of thought. I am not prepared to say that one is wrong to the exclusion of the other.

Hon. Mr. STEVENS: But you are entirely satisfied that that is the situation?

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Mr. MATTHEWS: Our opinion is that the present system is sound, always provided that the relationship of the operating department to the accounting department records reflect the actual retirements, or the property that should be retired. But, of course, the danger in this is—and I realize it, because we have all seen its application where properties have been allowed to run down for various purposes, and they have purposely deferred retirements, and at other times have made retirements and kept them out of the accounts. That, of course, is not to be defended from any point of view, but as long as the Canadian National Railways continue to make a fair representation of the retirements we feel that the basis is fair.

Mr. GEARY: You check that retirement up as best you can?

Mr. MATTHEWS: Yes, Mr. Geary, we do. The question of capital expenditures is a question of continuous check with us.

Mr. GEARY: May I just follow that. Assuming, as the balance sheet stands, that there is just the one car retired next year, \$850, then there is a credit to 701, that is, it is decreased by \$850.

Mr. MATTHEWS: Originally the \$850 that was in it, so you have nothing there then.

Mr. GEARY: Assuming you have all this, and then 716 is charged with \$100.

Mr. MATTHEWS: That is the value of the material.

Mr. GEARY: So your 701 would be decreased by 650,000—

Mr. MATTHEWS: Yes, and this income account would absorb the loss.

Mr. HANSON: What is the system followed by the Canadian Pacific Railway?

Mr. MATTHEWS: I am afraid you will have to ask Price, Waterhouse about that; I do not know. We can give you all the information about the Canadian National, but I am sorry I cannot tell you anything about the C.P.R.

Mr. GEARY: Account 701 to-day, assuming the figures as of January 1, 1923, are correct, represents what is there on the system—

Mr. MATTHEWS: Mr. Geary, if you take that balance sheet item by item, and take the statement we make at the first of January, 1923, when we accepted what anybody else would have had to accept, a figure which could not be checked, every asset and liability has been audited, I think, as of December 31st. If you pick out any account we will tell you how we do it, and to what extent. The questions of securities, cash, accounts receivable and payable—anything at all on that balance sheet is audited by us at the end of December, starting with the capital expenditure as of the first of January, 1923.

Mr. GEARY: And what you have to say about capital—I do not want you to embark—

Mr. MATTHEWS: Do not get me doing that.

Mr. GEARY: But there is some yardstick or some rule—

Mr. MATTHEWS: Decidedly. We work on the basis of the Inter-State Commerce Commission's classification, which, whilst it is not perfect—it has its human weaknesses—at the same time is the product of the best accounting knowledge and men which they have. They have been getting together since 1887, or something like that, but the Inter-State Commerce Commission has really exercised real accounting control since 1907, so you might say that it has been for twenty odd years and in that time it was made a subject of some change, but they are constantly getting together so that we are working on the accepted basis of all American railroads, and whether it be right or wrong it is the best that is available, and it is uniform, which is perhaps more than

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can be said for all other railroads. The Canadian National Railways is subject to a definite basis, and perhaps there would be a little better understanding of some things if that were true all around.

Mr. GEARY: You use that rule in splitting expenditures?

Mr. MATTHEWS: Yes.

Mr. GEARY: Relaying track or something of that sort?

Mr. MATTHEWS: Yes. We follow the Inter-State Commerce Commission. The relaying of track is based upon the excess weight, ties are treated according to their own particular rule. For instance, the labour of taking up and putting down ties is all operating expense. Replacing a trestle is treated on a little different basis than rails. It is on a retirement basis, whereas rails are on an excess weight basis, but all on the basis which have been accepted by American railroads for the same thing. It may be subject to change, and when it does we will have to abide by it.

Mr. GEARY: The question which occurred to me, Mr. Matthews has answered, that is, that his certificate while it seems a little wider than a corresponding one I have read, means the same thing, and it does represent the true financial state of affairs at the moment. There is no reservation?

Mr. MATTHEWS: Except on the property. We have no reservation in that balance sheet with that exception. That brings up a very big question, that if this property were revalued the complexion of this balance sheet would change according as the valuation differed from the books as at the first of January, 1923. If at any future time there were any change in the capital structure—and I mean by that, capital stock structure—the relationship of these advances by the Dominion government would change, but at the end of December, 1928, the holdings of the Dominion government, their advances and so forth, were stated as being in agreement with the government's accounts, subject to certain reconciliations, and it was agreed to by the government. Now, as far as we are concerned, they are the creditors, and as long as the Dominion government agree to the figures shown there, we are not in a position to say whether it should be increased or decreased, but I am saying if in future years there should be any drastic change in the policy, those figures would change accordingly to those stated as of a given date.

Mr. GEARY: I notice in one of the reports of the Department under "Liabilities" on page 15, "Funded debt unmatured on loans from the Dominion amounting to \$614,000,000; interest accrued but unpaid"—so much. There is no compounding of interest there?

Mr. MATTHEWS: Simple interest by the year. The increase in that account for the year is approximately offset by the income account for the year, account 546a.

Mr. GEARY: That is quite true, but when the government charges interest on the above, it is at simple interest only?

Mr. MATTHEWS: Yes. I would say this: if you were my banker—

Mr. HANSON: He would compound interest by the month.

Mr. MATTHEWS: —and you charged me simple interest and I get a certificate from you at the end of a month, I do not know whether you should charge me compound interest. The fact is you certify that interest liability as being correct.

Mr. GEARY: You do not care to offer an opinion as to whether or not the government should compound that?

Mr. MATTHEWS: No; that is entirely outside of our mission. We are not in a position to tell the government what it should do. The government is the

creditor. Take for instance, account 758. It is in exactly the same position, "Loans and Bills Payable." The National railway owed that to the bank, and if we agreed with the bank's certificate, we did not stop to ask whether they should have charged 6 per cent or 5 per cent. They say that is the liability we owe. Very well.

MR. GEARY: I am not finding fault, but I am asking you to say whether in your opinion that should be compounded.

MR. MATTHEWS: No. You can appreciate that that is entirely outside the field of accounting. The accountant is not the administrator, and has no means by which to criticize administration. He can simply state facts as he finds them, and if the figures presented to him are not, in his opinion, fair, he will so state in his certificate.

MR. GEARY: In regard to these liabilities: I know it is a difficult matter with all these forms of outstanding securities, but with how many do you deal?

SIR HENRY THORNTON: There are, as I recall it, 169 different mortgages. Those mortgages vary as to conditions, maturity, rates of interest, guarantees, and so forth, on parts of the property upon which they are liens. In some cases it will be a first lien on the property for a few hundred miles, and on the next few hundred miles it may become a second or third lien. It is all the result of having taken into one system a number of private companies which were financed in various ways throughout a period of years. All of that we have inherited, and have been trying to unravel ever since, so that it makes, I should say, our financial structure far and away the most difficult to understand and the most complicated of any commercial enterprise which exists.

MR. GEARY: These are all submitted to your auditors?

SIR HENRY THORNTON: Oh yes.

MR. HANSON: As these securities mature you issue your own in refund?

SIR HENRY THORNTON: That has been the practice.

MR. HANSON: As time goes on, they will all disappear, except the perpetual debenture stock? Are there any perpetual debentures?

SIR HENRY THORNTON: Yes, there are some perpetual debentures.

MR. GEARY: \$120,000,000 of Grand Trunk at 4 per cent; 5 per cent for another \$20,000,000—

HON. MR. DUNNING: There are some Canadian Northern perpetuals, too.

MR. HANSON: As I understand it, this is a continuous audit? You have men in there all the time?

MR. MATTHEWS: Mr. Hanson, a man. We have about eight offices on this work, including our American offices on the American properties, and our offices from Vancouver right through to Montreal. The work is controlled from one source. This is the master control of our audit work, so we do not have one group of men thinking one way and another group thinking another, because the questions have to be consolidated in a given way at the end of the year, but our work is divided into two main sections. There is the detail work, what we call our continuous work throughout the year. That I would divide into three main headings; first, we make tests of the cash receipts and disbursements. Do not misunderstand me. I am not making the statement that we can examine every cash transaction, because that would obviously be foolish, but what we do is to make tests of the important cash transactions over the system. Now, in addition to that we have over the last five or six years considered the accounting system that the railway has adopted in their various units with a view to ascertaining if their own internal audit system was sufficiently complete to protect the railways against a loss, either from loose practice or from fraudulent

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practice on the part of anyone in the railway, and I must say that at any time we have brought up any questions of internal change, there has never been the slightest difficulty in arriving at a common ground. If there are still units in the system we have not as yet been able to reach, it is not because the National railway officials have not been willing to make any change. We work along those lines to make tests of the larger transactions, without stated amounts, and to work along the lines of protective measures within the railway itself. Then the third point is the continuous audit and the distribution between Capital and Income. That is continuous.

I would like also to make clear at this point that we do not hold ourselves responsible for the appropriations that the Government make, that is the financing. We look upon the government as the banker, and if at the end of the year the banker says we want so much, we are content with that. But what we do do is this, we examine these divisions, where there are elements of capital and income, to see if the income account is being fairly reflected. That is to say, if there is any unfairness in its distribution between the two, we would take it up. But I must say that the railways up to date have followed a practice of accounting on capital expenditures that it is very difficult to find much quarrel with; but it is the most important work that we do, and we are doing it all the time.

Now that leads up to the final work. You see, during the year we are doing that constantly, all the time, at all our offices. At the end of the year, the thing is then to put together what we have found during the twelve months; because obviously it would be impossible for us between the end of February and the 15th or 16th March to give any certification for figures of this kind which involved something like ninety balance sheets. We have to do it during the year. Now we make an audit of all the constituent balance sheets at that date. Next comes the consolidation of those balance sheets, with the important question of the elimination of all inter-system transactions. So that you get a picture finally of the position of the National Railway system to the public. This does not represent the ninety balance sheets added together by any means. They are taking all together the regions and the corporations, between three and four hundred million which are taken out of this before these figures come. The same with the Income Account. The interest between system companies and so on, is eliminated, with the exception of the separately operated properties; and the reason they are not eliminated entirely is that the Inter-State Commerce Commission calls for the net result of those on their own. That is a brief summary of what we do. Of course we take and divide up the system into regions, separately operated properties, system headquarters and corporate holding companies.

Mr. GEARY: You do not check up the actual payments made in the course of operations?

Mr. MATTHEWS: As I said, we make tests of major cash operations, both receipts and disbursements, and support that with an examination into the accounting methods employed within the railway itself.

Mr. GEARY: But you do not check the payments to a section gang, for instance?

Mr. MATTHEWS: Oh no. On the question of payrolls, obviously the best that any auditor can do is to make certain tests. But the big feature on payrolls is to see what internal checking up the railway corporation has within itself. That, after all, is far more important than a stack of detail work. I remember once, when I first went to Chicago, we were put on detail work which took some months; then suddenly one day somebody decided to apply

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a little common sense to it, and we found out more in one afternoon than we had done during those months with an expenditure of a good many thousands of dollars.

We have had the fullest co-operation from the officials of the National Railways in anything which would better the position or fortify the interests of the company.

Mr. POWER: Do you make tests of payments in the construction of new work?

Mr. MATTHEWS: Yes.

Mr. POWER: How do you do that?

Mr. MATTHEWS: From the vouchers and the receipts.

Hon. Mr. STEVENS: Just one question occurs to me from your observations. The current assets, cash \$18,900,000, what is that made up of?

Mr. MATTHEWS: Cash in bank, practically.

Hon. Mr. STEVENS: All over the country?

Mr. MATTHEWS: Yes, everywhere. But that does not agree with the total of the banks' certificates. The banks' certificates would be a great deal more than that; the difference being that the railway has drawn cheques against those balances; so that that is the net cash position certified by the banks concerned.

Mr. GEARY: And cash in tills?

Mr. MATTHEWS: Cash on hand; but principally that is in hand in 720, working funds. 708 is principally cash in banks.

Mr. POWER: This may sound like a fool question. How do you get at the cost of construction of branch lines? Are they given out principally by contract?

Mr. MATTHEWS: I think Mr. Hungerford could better answer that. That is an administrative matter.

Sir HENRY THORNTON: May I answer that question? Yes, they are given out by contract. Tenders are asked for, and almost invariably the contract is let to the lowest bidder.

Mr. GEARY: Your track-laying you do yourselves?

Sir HENRY THORNTON: Yes, we do that ourselves.

Mr. HANSON: As to the structures and bridges, have you not changed your policy? Years ago most of the bridges, on the Intercolonial, used to be built by tender, that is the sub-structure; but now I understand there has been a change of policy and you keep a bridge-building department in each region?

Sir HENRY THORNTON: We have a bridge-building department and any ordinary job we would do with our own forces. If it was a very large piece of work we would probably ask for tenders.

Mr. HANSON: So that the minor work it is usual now to do by day's work, and the major work you ask for tenders?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (*Melfort*): You do it to better advantage with your own forces?

Sir HENRY THORNTON: You have to have a force, and small work you can usually do to most advantage by them.

Mr. McLEAN (*Melfort*): In any work, you have to pay for moving materials, and so on, sometimes large distances; and with your staff you can do it to better advantage.

Sir HENRY THORNTON: Yes.

[Mr. O. A. Matthews.]

Mr. MATTHEWS: I do not know, gentlemen, whether you have gathered from what I have said, that we construct these accounts. We do not construct these accounts. These are constructed by the railway officials. We simply audit them. The initiative behind the initial idea of getting the consolidation of these accounts was entirely with the railways' officials, and we did not have anything to do with it. In the beginning, in 1923, they certainly had a task on their hands which took a great deal of experience to put into shape. And it is a singular thing that after six years of practical application the basis is still the same to-day as it was the first year that they made this original consolidation.

You know when these accounts were first brought together, you had your Canadian Northern, Grand Trunk Pacific, Grand Trunk and I.C.R., all with their different accounting systems, and so on. That rested entirely with the railways to find some means by which a consolidation could be arrived at which would give a fair reflection of those properties, all with different ideas.

I would like to make clear that whatever you find in these accounts, they are none of our construction whatever, and we have simply audited them.

Mr. HANSON: You set up the balance sheet, do you not?

Mr. MATTHEWS: No Sir, that is perhaps a common misunderstanding. That is done by the railway officials. We audit the balance sheet.

Mr. HANSON: Is that the function of a firm of chartered accountants?

Mr. MATTHEWS: Yes, invariably.

Mr. HANSON: Your firm set up the balance sheet of the consolidated Fraser Company every year.

Mr. MATTHEWS: We do that by a special arrangement; but that is not the practice of railroads. I wanted to make it clear that we do not construct these accounts.

Mr. GEARY: Taking any account, say 371, superintendence account, what property goes into that account?

Mr. MATTHEWS: That is according to the classification.

Mr. GEARY: Do you check up the items to see that the items of Superintendence are right?

Mr. MATTHEWS: Our certificate says that we certify to the balance sheet, the profit and loss and the Income Accounts. We do not say that we certify to the attached classification of operating expenses. What we do is that we have to stop some place; so as long as the charge is a proper one for, say, 501, Railway Operating Expenses, we do not go on and reclassify that, as between superintendence and so on. It is the Income statement that reflects or contains the position of the operation. We stand behind the primary distribution of the Income Statement, profit and loss and balance sheet, and the total of the railway operating expenses, and so on.

Mr. GEARY: You take those railway operating expenses, the total, by taking the accounts which are presented to you, without checking up the primary accounts at all?

Mr. MATTHEWS: If it is a proper operating expense charge, we see it is charged to 501. Now the railway splits that up into various primary accounts, whether revenue or operating expenses, from 1 to 400; and the total of their expenses will agree with 501 or 531 in the Income statement. Just the same, we do not continue on through this statement to check up the car miles and all the rest of the statistical information supporting the main picture.

The CHAIRMAN: Is that all, Mr. Geary?

Mr. GEARY: That is all for me, thank you.

Witness retired.

The CHAIRMAN: Thank you. Is it the desire of the Committee to go on examining the rest of the accounts?

Mr. GEARY: I think we had better look over the balance sheet.

Mr. HANSON: Sir Henry outlined a form of procedure yesterday, and I think we had better follow that.

The CHAIRMAN: If you want to examine the accounts further, you will have to go into the general accounts.

Sir HENRY THORNTON: You have the consolidated Balance Sheet and the assets and liabilities, and that has been more or less discussed now. Do you want to leave that and turn to page 16?

Hon. Mr. STEVENS: Might I ask, Mr. Chairman, what further work you purpose doing? I only want to have an idea.

The CHAIRMAN: Previously we examined the analysis, and then we went into details of the operating accounts. Now we have decided not to examine the detailed operating accounts; therefore there remains only the accounts mentioned in the index, such as the profit and loss, the income statement, and the balance sheet.

Mr. GEARY: I think Mr. Cooper might help us. I think, Sir Henry, we might run over the balance sheet and profit and loss.

Sir HENRY THORNTON: Certainly, I should think perhaps if Mr. Cooper would start with the assets and read the account number and the heading title and go on through it, then if any member has any question to ask, it can be interposed. Is that what you would like to do, Mr. Chairman?

The CHAIRMAN: Yes.

Sir HENRY THORNTON: Account 701.

Mr. HANSON: As to this first item, you agree in what Mr. Matthews said about the way it was made up?

Mr. COOPER: We made it up.

Mr. HANSON: Have you ever had a physical valuation made of the properties of the company?

Mr. COOPER: No.

Investments; 701. Investments in road and equipment, \$1,942,146,252.94.

Sir HENRY THORNTON: That would take years to have made. Some years ago the Inter-State Commerce Commission started on a scheme to value all the railway property in that country. They started that some fifteen years ago and they are still at it.

Mr. GEARY: It is the amount invested in the property of the company?

Sir HENRY THORNTON: It was just a physical valuation that they started to make.

Mr. GEARY: They wanted a physical examination?

Sir HENRY THORNTON: Yes. What they really went to find out was to what extent, if any, the railways were over-capitalized or watered. That was, I think, the real object of the investigation. I was merely explaining in answer to Mr. Hanson's question, that we have had no physical valuation of our property, and to do so would be an almost interminable task.

Mr. GEARY: I agree with you. That does not represent the value but merely the book value?

Mr. COOPER: Book value. Take the terminal properties; in the City of Montreal, there has been a tremendous appreciation in value.

Mr. GEARY: Say ten years ago, the same property bought in 1914, physically would be much more valuable to-day, less depreciation than it would be then?

Mr. COOPER: There is both depreciation and appreciation at work in the properties of the system. Just what the present day valuation would be as compared with the book cost is something which can only be ascertained by an appraisal.

Mr. GEARY: The same with the book cost?

Mr. COOPER: The same with the book cost. The book cost goes back over the history of the present companies and their predecessor companies, away back to the beginning of railroad history in Canada, in 1832 I think it was.

Mr. GEARY: Anyway, since 1923 as worked out by Mr. Matthews, this is accurate?

Mr. COOPER: From 1923.

Mr. McLEAN (Melfort): On the question of the original cost, can you build your branch lines to-day for the same cost as you have charged against the original construction, taking steel and ties into consideration, but allowing for the difference in the weight of steel?

Mr. COOPER: I do not know what the original costs were.

Sir HENRY THORNTON: In a general way, construction costs more to-day than it did forty years ago.

Mr. McLEAN (Melfort): I said, allowing for the difference in the weight of steel.

Sir HENRY THORNTON: That is a pretty hard question to answer. Perhaps the best line on that is to be had from some figures I saw a year ago that Lord Brassey had. He was a large railway contractor; he worked all over the world, and a great deal in Canada. It developed very curiously that there had not been much difference in the cost of railway construction outside of property values in the last thirty or forty years, for the simple reason that some thirty or forty years ago much more railway construction work was done by manual labour, because labour was cheaper, than by labour-saving devices. As the cost of labour increased it forced the contractors to economize by devising and purchasing labour-saving machinery, and the two tended to balance, so that there has not been a great deal of difference outside the values of property. I should say that, as far as our branch line work is concerned, where the work is light and the grading is light, for instance on the prairies, the cost of construction to-day would be greater than it was thirty years ago.

Mr. McLEAN (Melfort): On account of the increased cost of steel and ties?

Sir HENRY THORNTON: Probably that, and light work, not involving heavy work.

Mr. COOPER: I may say on the question of the Interstate Commerce Commission proceedings that they adopted the 1914 scale of prices as being representative of costs prior to that date.

Hon. Mr. DUNNING: Of costs prior to that date?

Mr. COOPER: Yes, sir. They said that the 1914 scale of prices was a pretty good yardstick to measure construction costs back to the beginning.

Mr. GEARY: Practically the curve of costs away back; up to 1913, just before the War and then they went up like mad to 1921 or 1922, but they have turned down a little lately.

Mr. HANSON: You are not yet back to pre-war costs?

Sir HENRY THORNTON: No. And there are certain forms of railway construction performed to-day which could not have been performed thirty or forty years ago, particularly sub-aqueous work.

Hon. Mr. DUNNING: The difference is marked on the basis of the bond guarantees by the provincial government. Before the War \$15,000 a mile on the Prairies was supposed to cover the initial expense, whereas to-day the Branch lines are costing up to thirty thousand dollars a mile on the average?

Sir HENRY THORNTON: Yes.

Mr. HANSON: I am surprised at the statement of Sir Henry as to the relative cost of construction.

Sir HENRY THORNTON: I am not speaking of light prairie work. I am speaking of what would be called ordinarily heavy construction work.

Mr. GEARY: The St. Clair tunnel was built thirty or forty years ago, and it is going yet very well.

Sir HENRY THORNTON: Yes, but I would hesitate to say whether it could be built cheaper to-day or not.

Mr. COOPER: The next is No. 702, Improvements on Leased Railway Property.

Mr. GEARY: Is that perpetually leased?

Mr. COOPER: Most of them are for 999 years.

Mr. GEARY: So that it is yours, it belongs to you?

Mr. COOPER: Yes, in that way.

Mr. HANSON: On No. 703, the next item, has the railway set up a distinct line of policy with respect to sinking fund requirements, and if so, does that cover all?

Mr. COOPER: The sinking funds which we have to-day are in accordance with the particular deeds of trust, which call for a sinking fund arrangement.

Mr. HANSON: Some may and some may not call?

Mr. COOPER: Our present issues are not sinking fund except as to equipment.

Mr. HANSON: Has the management given consideration to this question of debt retirement at all; you say your major issues now are not sinking fund except on equipment?

Sir HENRY THORNTON: That should be answered in this way: for the last four years the administration of the Railways has been making an examination, an investigation and a study of the financial position of the Railway with respect to capital account. That involves a great deal of work, because many of the old records in the old constituent companies were not in very satisfactory shape, and it took a long time to develop the facts, and as a result, although there has been developed a plan which will eventually be presented to the Government with a view to a reconstruction of the financial position—

Mr. HANSON: That is, in respect of the whole capital structure. I was referring particularly to your funded debt.

Sir HENRY THORNTON: Well, of course that necessarily involves the funded debt. It involves dealing with the funded debt, because all the items of the funded debt will have to be dealt with.

Mr. HANSON: You could not interfere with the funded debt in the hands of the public?

Sir HENRY THORNTON: No, but as these various securities in the hands of the public become due, they are refinanced according to the circumstances of the times and to the best advantage of the Company.

Mr. GEARY: I think Mr. Hanson means that this funded debt in the hands of the public is not being provided for at the moment.

Sir HENRY THORNTON: You cannot do anything with it.

Mr. HANSON: You can of course, on your refunding operations?

Sir HENRY THORNTON: Yes, when the refunding time comes.

Mr. HANSON: You are doing that every year?

Sir HENRY THORNTON: We are doing that all the time.

Mr. HANSON: But you are not making any provision for these retirements?

Sir HENRY THORNTON: No.

Mr. HANSON: Why?

Sir HENRY THORNTON: Because you cannot. Let us say that a certain issue of one hundred million dollars becomes due this year, we cannot pay that off.

Mr. HANSON: You must refund it. We are at cross purposes for the moment. In your operations for the refunding bonds that go out to take care of that one hundred million dollars, should you not as a prudent railway executive make provision for the retirement of that during the life of that particular bond issue? Any industrial or other corporation would have to do that, but yours is a government organization.

Sir HENRY THORNTON: All these things have been studied and taken care of in the proposed reconstruction of the Company's financial affairs.

Mr. HANSON: When are we going to get that plan?

Sir HENRY THORNTON: I will have to refer you to the Minister.

Hon. Mr. DUNNING: There is this point in connection with the scheme generally, Mr. Hanson, that many of the constituent companies issuing securities in the past issued many more bonds without sinking fund provisions than with them; I mean it was not a fixed principle in railway financing to issue sinking fund bonds. I mean, it is not a fixed principle of their way of financing. That is of course administered by the sinking fund already in existence.

Mr. HANSON: There have been so many different issues by so many different companies that the method has been more or less haphazard, just what the contingencies of the occasion might require.

Sir HENRY THORNTON: Some one hundred and sixty-two issues.

Hon. Mr. DUNNING: I have in mind the C.P.R., which is regarded as pretty well financed, their perpetual investments, for instance.

Mr. HANSON: They are issued in the form of capital, instead of paying dividends.

Hon. Mr. DUNNING: In regard to the matter of financial reconstruction, it is pretty hard to say anything for publication just now, but it is public property that there is an application now on behalf of the Junior Grand Trunk Stockholders. The matter of policy in relation to granting or refusing is before the Government, and without my elaborating it, you will understand what the effect would be upon any financial reconstruction. I may say both for the Government and the Canadian National that we desire at the earliest moment to get this financial structure put into shape. In connection with the property, as Minister I attach very great importance to the capital structure it is to have, so as to give the greatest possible incentive to the management to have a favourable showing instead of having a lot of paper indebtedness which cannot be represented by actual assets.

Mr. HANSON: That is one side of the picture. You know there is a very strong argument against that.

Hon. Mr. DUNNING: It is arguable. The Government is convinced that such a reorganization of the financial structure is absolutely necessary, and that it is good business. The very confusion which exists in these accounts

provides one very strong argument indeed for straightening the structure out. As to any arguments against it, I will be glad to listen to them; I do not know what they are.

SIR HENRY THORNTON: I should not want to embark upon any discussion in respect of any revision of the financial structure until the whole proposal could be placed before those who are interested.

MR. HANSON: I am not seeking to go into that.

SIR HENRY THORNTON: All I can say is that it would be unprofitable, and would give a wrong impression on certain matters.

MR. HANSON: I hope you will keep in mind that any reorganization, and particularly any writing off by the Government is going to bring upon your heads demands for reduced transportation.

SIR HENRY THORNTON: I doubt whether we will ever be able to dodge that, no matter what happens.

MR. GEARY: It might perhaps mean a show of strength.

MR. HANSON: I will not go any farther with it.

HON. MR. DUNNING: I would like to point out that if our freight rate structure to-day were based upon the balance sheet necessities of the Canadian National, our freight rates would be very much higher than they are; in other words, we can readjust this capital structure a long way before we can bring it within range of our present freight charges.

SIR HENRY THORNTON: In some respects our poverty is an asset.

MR. HANSON: A safeguard.

MR. GEARY: The four per cent you spoke of is the one that is in arbitration?

HON. MR. DUNNING: That would not apply to the four per cent. I am speaking of the Grand Trunk One, Two and Three per cent and Preference, not shareholders. These are the people applying for a fiat to sue. The four per cent is not in question at all.

MR. GEARY: I thought you said four per cent.

HON. MR. DUNNING: No, the one, two and three and Preference and Ordinary.

MR. COOPER: The next is No. 704, Deposits in lieu of Mortgaged Property Sold.

MR. HANSON: What does that mean?

MR. COOPER: Under the common trust, when there is a sale we must deposit the proceeds with a trustee.

MR. HANSON: A very awkward situation to deal with at times.

MR. COOPER: Account 705, Miscellaneous Physical Property. Account 706, Investments in Affiliated Companies.

MR. HANSON: Generally speaking, what would be the nature of 707, Other Investments?

MR. COOPER: Account 707, Other Investments, that would be investments in non-allied companies. It also includes considerable Dominion Government bonds held by our subsidiary companies for various purposes.

HON. MR. DUNNING: I wish it were bigger, Mr. Hanson.

MR. HANSON: Yes, if they are good. Investments in outside hotel properties. I doubt if that satisfies them.

SIR HENRY THORNTON: They are never satisfied.

MR. COOPER: Account 708, Cash. Account 711, Special Deposits.

MR. GEARY: Does "Miscellaneous Physical Property" include real estate?

Mr. COOPER: Lands, real estate, and all property.

Mr. GEARY: That is cost price?

Mr. COOPER: At cost price, yes. Account 712, Loans and Bills Receivable.

Mr. HANSON: "Special deposits." Those are principal payments, are they?

Mr. COOPER: That is the proceeds of bond issues sold on deposit and waiting release on the authority of the Minister of Finance. Account 713, Traffic and Car Service Balances Receivable. Account 714, Net Balances Receivable from Agents and Conductors. Account 715, Miscellaneous Accounts Receivable. Dominion Government—Operating Deficit on Eastern Lines. Account 716, Material and Supplies.

Mr. HANSON: Is that a fairly constant figure, or is it constantly mounting?

Mr. COOPER: Which?

Mr. HANSON: The last one, 716.

Mr. COOPER: There was a decrease during the year of \$823,000.

Mr. HANSON: I suppose it is pretty hard to keep it down?

Sir HENRY THORNTON: Of course, that is a thing that every railroad is constantly hammering at, and our effort is to reduce it to the irreducible minimum. It is something, no matter how small it is, we should now be satisfied with.

Mr. GEARY: It is working capital in a way.

Mr. COOPER: It is working capital.

Mr. HANSON: It is current assets.

Mr. COOPER: It is considered working capital.

Mr. GEARY: It is an amount of money that is locked up.

Mr. McLEAN (Melfort): The size of that would depend a great deal on freight conditions?

Sir HENRY THORNTON: And construction work that is going on.

Mr. COOPER: Account 717, Interest and Dividends Receivable. Account 718, Rents Receivable. Account 719, Other Current Assets. Deferred Assets: Account 720, Working Fund Advances.

Mr. HANSON: Perhaps we might have some little explanation of the whole subject of deferred assets. I am not an accountant; I am not a railway man, so I must confess to a certain degree of ignorance.

Mr. COOPER: Current assets are those which are immediately collectable or realizable.

Mr. HANSON: Principal payments.

Mr. COOPER: Principal Payments would be an unadjusted debit. Anything which is not collectable within two years of the date of the balance sheet is considered deferred. Account 721, Insurance and Other Funds.

Mr. HANSON: Do you carry your own insurance?

Sir HENRY THORNTON: Yes.

Mr. HANSON: You build up the fund for it.

Sir HENRY THORNTON: We have been building up that fund since 1923. The fund now amounts to, I think, about \$11,000,000, does it not?

Mr. COOPER: Including the Merchant Marine, yes.

Sir HENRY THORNTON: Of which \$9,000,000 is for railway insurance purposes, and the remaining two million some odd thousand is for government marine insurance. So that the total insurance fund surplus of the National Railways and the Government Merchant Marine amounts to—

Mr. COOPER: \$12,500,000.

Sir HENRY THORNTON: That is invested in Dominion bonds and other first class securities, and is kept separate. I might say for your information, that the income now from the insurance fund a little more than off-sets the annual losses from fire.

Hon. Mr. DUNNING: And the fund has been built up entirely since 1923?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (*Melfort*): You do not need then to make appropriations for it?

Sir HENRY THORNTON: I should think the policy ought to be to continue to make appropriations for the benefit of the fund until it reaches \$15,000,000 or so.

Mr. HANSON: That would be the safety point.

Sir HENRY THORNTON: That is a sound policy to pursue.

Mr. GEARY: What were the losses last year?

Sir HENRY THORNTON: The marine losses last year were \$482,000. We had some bad luck. The Canadian Explorer was damaged by heavy weather, and there was a collision between the Canadian Explorer and a steamer in the River Scheldt in Holland. The Canadian Mariner, on a voyage from Antwerp to Quebec, was damaged, and the Canadian Constructor was damaged by heavy weather.

Mr. HANSON: We can go into those when we go into the Merchant Marine.

Mr. McLEAN (*Melfort*): Is it correct to say that you do not pay out any insurance premiums at all, I mean outside of your own organization?

Sir HENRY THORNTON: No. We do all our own insurance.

Mr. HANSON: You have your officials bonded?

Mr. McLEAN (*Melfort*): I do not mean liability as to your men, but insurance as to your physical property?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Are you included in any workmen's compensations?

Sir HENRY THORNTON: I should say we are.

Mr. GEARY: How much does that cost?

Sir HENRY THORNTON: We will get that for you.

Mr. MILNE: Does this insurance take care of the cargoes too?

Sir HENRY THORNTON: Oh, yes, anything for which we are responsible.

Mr. MILNE: Are you responsible for the whole amount that you carry.

Sir HENRY THORNTON: I do not know; I think we are.

Mr. COOPER: Account 722, Other Deferred Assets. Unadjusted Debits: Account 723, Rents and Insurance Premiums Paid in Advance. Account 724, Discount on Capital Stock.

Mr. HANSON: Is that an old item carried forward?

Mr. COOPER: Yes. It is the discounts with some of the subsidiary companies which are not held within the system.

Mr. HANSON: And you have not been able to write it off?

Mr. COOPER: Discount of Capital Stock, like the stock itself, is a permanent item on the balance sheet. Account 725, Discount on Funded Debts, which is the next item, is amortized over the life of the security. Account 727, Other Unadjusted Debits.

Mr. HANSON: That seems to be a good place to stop.

The Committee adjourned until Friday, April 26, at 11.00 a.m.

SESSION 1929
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5—FRIDAY, 26th APRIL, 1929

WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department,
Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

MINUTES OF PROCEEDINGS

ROOM 268, HOUSE OF COMMONS,
FRIDAY, April 26, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

Members present: Messrs. Bell (St. Antoine), Cantley, Dunning, Geary, Gray, Jelliff, Jenkins, McLean (Melfort), Milne, Stevens.

In attendance: Sir Henry Thornton, President, Canadian National Railways, with members of his staff; also Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

Sir Henry Thornton supplied an answer to a question asked at the last meeting of the Committee.

Mr. R. C. Vaughan, Vice-President, Purchasing and Stores Department, Canadian National Railways, was heard respecting purchase of materials and supplies.

ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

The Committee resumed consideration of the Consolidated Balance Sheet. The Liabilities, as indicated on page 15 of the Report, being items 751 to 784, both inclusive, were severally called, and discussion took place.

At 1 p.m., the Committee adjourned until Tuesday, 30th April, at 11 a.m.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

COMMITTEE ROOM 268,

HOUSE OF COMMONS,

FRIDAY, April 26, 1929.

The Select Standing Committee on Railways and Shipping met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

Hon. Mr. STEVENS: Mr. Chairman, I want to ask for one correction. On the whole, I think the reporters are doing very well, but on page 17 there is a figure shown in the third last line, the line reading as follows: "I find there is an item of \$40,000 borrowed from the bank." The figure of "\$40,000" should be "\$40,000,000".

The CHAIRMAN: Have you any replies to questions, Sir Henry?

Sir HENRY THORNTON: Mr. McLean (Melfort) asked the amount of compensation paid during the year 1928 on account of injuries to employees. Compensation charged into accounts 274, 332, and 420 in 1928 on account of injuries to employees, including fatal accidents, amounted to \$1,572,658.55.

Hon. Mr. STEVENS: Was that about normal?

Mr. COOPER: Yes, I would say that that is a fair average.

The CHAIRMAN: Mr. Vaughan, the vice-president in charge of Purchases, is here this morning, but is compelled to leave. If there are any questions that any of you would like to ask of him, perhaps it would be well to do so now.

Sir HENRY THORNTON: I think, gentlemen, if there are any particular questions you wanted to ask in regard to the purchase of materials and supplies, if you would be kind enough to ask these questions of Mr. Vaughan now, it would enable him to keep some important engagements which he has for next week.

Mr. CANTLEY: He might give us a statement in regard to the coal supply on the railways, and where it is acquired.

Mr. VAUGHAN: Do you want me to go into it generally? I could start with the Atlantic region and go to the Pacific coast. It would probably take ten or fifteen minutes.

Mr. CANTLEY: Give it to us briefly.

Mr. VAUGHAN: On our Portland division we use coal that comes from West Virginia by barge, and also some ballast coal which comes from the old country. The vessels come up light to Portland, and carry some coal as ballast which we take. We also take coal from the British Empire Steel Company at Portland when they have it to offer. The coal we use in the maritime provinces we take from the mines down there. Our coal purchases are based upon the distance the coal has to be hauled to the point of consumption. We bring up the St. Lawrence river probably 800,000 tons of coal—

Sir HENRY THORNTON: Where does it come from?

Mr. VAUGHAN: From the maritimes, Sir Henry—and that coal is discharged at Levis and Montreal. Altogether we use probably 1,500,000 tons of Nova Scotia coal. Last year the Nova Scotia coal was used as far west as Ottawa and Brockville.

In the Central region, between those points and Port Arthur, we use coal from the United States.

Mr. CANTLEY: So far as the eastern coal is concerned, does it fill your requirements within that district?

Mr. VAUGHAN: It fills our entire requirements, except for some special coal that we may buy in special sizes for use on our fast passenger engines—the 6,000 type engine. We have taken nearly all the coal they can give us. I do not think they have had any complaints about the quantity of coal we have taken from them.

We have our own mines operating in Ohio. They were shut down by labour difficulties for two or three years, but we are operating them now, and this year we will get about 1,750,000 tons of coal from them. We do not bring that east of Toronto, so it does not interfere with the use of Nova Scotia coal.

We also move considerable coal to points on the Georgian Bay, Fort William, Port Arthur and Duluth.

We take about 1,500,000 tons of Alberta coal which comes east as far as Winnipeg, and we buy about 75,000 tons on Vancouver Island, which is brought across by car ferry or barges for use in British Columbia. Altogether we use about 6,000,000 tons of coal per year, of which about 1,000,000 tons is used on the United States Lines, and the balance used in Canada, and of that about 3,000,000 tons is Canadian coal and 2,000,000 comes from the United States.

Mr. CANTLEY: Thank you. My object in asking the question was not to find fault, but rather to get on record the facts as to the genesis of the coal used on the system. So far as I am concerned I would like it definitely understood that I am thoroughly satisfied so far as the use of eastern coal is concerned.

Mr. JELLIFF: Are tenders generally asked for in the purchase of coal?

Sir HENRY THORNTON: Yes. I may say that all our purchases are by tender, although sometimes the tenders are unsatisfactory, and then there may be further negotiations with the tenderers.

Mr. McLEAN (*Melfort*): Is the lower cost shown in the price of coal due partly to the fact that you are operating your own mines?

Mr. VAUGHAN: I do not think so. We only started our own mines about July of last year. The general price of coal in the United States last year was lower.

Mr. GEARY: How many people would tender on a contract?

Mr. VAUGHAN: On our American coal, perhaps somewhere from 50 to 100 tenderers.

Mr. CANTLEY: What about the eastern coal?

Mr. VAUGHAN: Well, everybody who has a mine down there. They all do.

Mr. GEARY: No difficulty in getting tenders? Does it take much time?

Mr. VAUGHAN: It takes a good deal of time because tenders are usually unsatisfactory, and it then becomes a matter of negotiation. That applies to other things, such as ties as well. We advertise for tenders on ties, but it is very seldom that we get tenders at a price which we will accept, and it comes down to a question of negotiation.

Mr. GEARY: But you invariably begin your purchases of coal by asking for tenders?

Mr. VAUGHAN: Yes, always. And the lowest tenderer is always given first consideration.

Mr. McLEAN (*Melfort*): How much of British Columbia is covered by your oil burners?

Mr. VAUGHAN: From Jasper to Prince Rupert, and Jasper to Kamloops. We use coal from Kamloops to Vancouver. The oil is brought up in tankers from California.

Mr. CANTLEY: Have you considered anything in connection with the use on your engines of powdered fuel?

Mr. HUNGERFORD: We have just started a new power plant at Montreal using powdered Sydney coal. We have done nothing as yet with regard to its use on locomotives.

Mr. McLEAN (*Melfort*): Do you use oil chiefly for fire protection in British Columbia?

Mr. VAUGHAN: It is primarily for fire protection, but oil out there is cheaper than coal. Our British Columbia coal is the most expensive coal we buy, as the cost of production out there is very high.

Mr. CANTLEY: If you could get your locomotives to using powdered coal you would eliminate a great deal of the ash and cinders.

Sir HENRY THORNTON: That is true. I do not know just what the state of the art is with respect to the use of powdered coal. Mr. Hungerford is trying it out at one of the power plants, and I suppose if the result of that is satisfactory, we will consider extending the experiment.

Mr. VAUGHAN: Some of the United States roads are experimenting with that fuel and we thought we would wait and see the result of their experience.

Mr. CANTLEY: That means that you will be some years behind them. Great developments are being made in the old country in that direction; no doubt about that. That is the way fuel will be largely used in the future, and it has a great advantage on the railways, as you will get rid of practically all the ash, a great deal of the dust, and practically all the clinkers.

Mr. HENRY: It costs about \$10,000 a locomotive to equip them. They would have to save a ton of coal per day.

Mr. CANTLEY: It is being simplified all the time. It is well worth your investigation, in my judgment.

Sir HENRY THORNTON: Thank you for the suggestion, Colonel. We will follow it up.

Mr. McLEAN (*Melfort*): Have there been many changes in the tie business last year?

Mr. VAUGHAN: No, the price of ties has remained very much the same.

Mr. McLEAN (*Melfort*): You have no trouble in getting an ample supply of ties?

Mr. VAUGHAN: No. Our only trouble is on the prairies. We take all the ties we can get in Saskatchewan, but we have to bring ties into the prairie provinces from Ontario in the east and from British Columbia and Alberta in the west.

Mr. McLEAN (*Melfort*): Have you ever tried Poplar ties?

Mr. VAUGHAN: Yes, but we are not using them now. We are using mostly Jack Pine or Fir at the present time.

Mr. CANTLEY: The supplying of ties in eastern Nova Scotia is the refuge of the destitute. They go into that only as a last resource.

Mr. GEARY: Does your department buy all supplies for every department of the road?

Mr. VAUGHAN: Yes, we do. There is only one item we do not handle, and that is commissary supplies for the dining cars. We handle all the supplies except the edibles, such as furniture, linens, crockery, carpets and so forth. Edibles have to be picked up in a hurry on the road; that is left to the general manager of the dining car department.

Mr. GEARY: You buy everything from a locomotive to a water pail?

Mr. VAUGHAN: Everything from a locomotive to a pin. Our purchases run from \$125,000,000 to \$140,000,000 per year.

Sir HENRY THORNTON: All the purchases are concentrated in the purchasing department.

Mr. GEARY: That is done advisedly, because it is more satisfactory?

Sir HENRY THORNTON: If you did not do that, you would have a lot of little purchasing agents growing up all over the railway, and eventually that would develop a chaotic condition. We have found it more satisfactory to restrict the purchasing to one department.

Mr. McLEAN (*Melfort*): You purchase all supplies in collaboration with the officers of each department?

Mr. VAUGHAN: Yes. If we decide to buy twenty locomotives, for instance, Mr. Hungerford's department will prepare specifications for those locomotives, and they will be passed on to me together with the authority from the President to purchase, and I do all that is necessary after that.

Sir HENRY THORNTON: The purchasing department and the department in which the material is to be used are always in close consultation in order that the purchasing department may secure the article best suited to the needs of the department, having regard to prices and conditions.

Mr. McLEAN (*Melfort*): If the price is not satisfactory to the department which will use the material—

Sir HENRY THORNTON: The price is a matter which rests entirely with the purchasing department although even there, there are consultations.

Hon. Mr. DUNNING: You purchase all the stationery requirements and office supplies?

Mr. VAUGHAN: Yes, we do, Mr. Dunning.

Mr. GEARY: I have in mind the discussion we had yesterday. I do not think it is a party matter as I am sure that we are all anxious to get at the best solution of the difficulties. I was wondering what the experience of the road was as regards isolated departmental buying.

Sir HENRY THORNTON: That seems to be the practice of every railroad of which I know. It is our practice. You may say that it involves a certain amount of rigidity, and perhaps dilatory action or delay in the purchase of supplies, but that has been reduced to a minimum. Against that is always the danger of extravagances which develop if departments undertake to buy for their own needs. You would find one department bidding against another, and generally speaking, in railway practice, it has been found more economical to restrict all purchases to the purchasing department.

Mr. GEARY: You get a wider view of the market?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Your practice is similar to that of the Canadian Pacific?

Sir HENRY THORNTON: I do not know what their practice is, but I would assume so.

Mr. VAUGHAN: The contracts for very large purchases are made in Montreal. We have regional purchasing agents who purchase against those contracts, and they purchase material running into smaller amounts.

Hon. Mr. DUNNING: They have certain discretionary powers?

Mr. VAUGHAN: They have discretionary power, yes, but copies of all their orders come to our office in Montreal and are checked as to price.

Mr. GEARY: What sort of stuff do they buy?

Mr. VAUGHAN: Well, paints—there are 40,000 different items we buy. I would say that the majority of them are left with them. Their jurisdiction is restricted to about \$2,000 in any individual item. Over that they get authority to buy.

Mr. GEARY: And all overseen by you?

Mr. VAUGHAN: Yes; copies of all orders come to Montreal and are checked. They are advised by Montreal of any changes in the market conditions in regard to all classes of commodities.

The CHAIRMAN: We were at page 15, item 751.

Mr. COOPER: Account 751, "Capital Stock." The make-up of that statement is detailed on pages 34 and 35 in the printed report, "held by the government and others, \$270,000,000."

Hon. Mr. DUNNING: I suppose you cannot guarantee that everything is there, but only what has up to now been discovered.

Mr. COOPER: I think we know what stock we have.

Hon. Mr. DUNNING: I had in mind that little road south of London which we discovered last year.

Mr. COOPER: That was not a system company, Mr. Dunning.

Hon. Mr. DUNNING: I imagine there may be one or two others buried in the records of the old Grand Trunk, but they would not amount to very much.

Mr. COOPER: They are not active companies.

Hon. Mr. STEVENS: There is none of that held by the public?

Mr. COOPER: The first item on page 34, \$165,627,738, and the first item in the Canadian Northern group, \$100,000,600, held by the government; the other small stocks are set out as held by the public. They are not stocks of the Canadian National Railway company; they are stocks of companies included in the system—stocks held by the minority shareholders.

Hon. Mr. DUNNING: That \$100,000,600 of stock of the Canadian Northern is stock for which the government paid \$10,000,000?

Mr. COOPER: Yes, and the \$165,627,738 is stock of the former Grand Trunk Railway which the government did not pay for; it was stock which was declared of no value.

Mr. GEARY: It was the four classes of stock, three preferred and one common?

Mr. COOPER: Yes, sir.

Mr. GEARY: Then these other small holdings, do they bring a return to the holder in any case?

Mr. COOPER: No, in no case do we pay a dividend on any of our constituent companies' outstanding stock.

Mr. GEARY: There is no advantage in getting that stock in, I suppose?

Mr. COOPER: It would help to clean up the situation if we did have them.

Mr. GEARY: They are holding out on you, are they?

Mr. COOPER: No, most of them I think have been lost. I think it would be very difficult to find out who the holders of them are, in a great many cases.

Mr. GEARY: For instance, the belt line railway, it is hard to find the road now, let alone the stock.

Mr. McLEAN (*Melfort*): It is not paying dividends, then?

Mr. GEARY: That would be, as you say, probably lost.

Mr. COOPER: It probably was, yes.

Mr. GEARY: Just as a matter of interest, how did that get into the Canadian National Railway? The Grand Trunk owned it, did it not?

Mr. COOPER: The Grand Trunk owned the majority of the stock of that company, and it would come into the system when the Grand Trunk was brought

into the system. But so long as there is a certain amount of par value of that stock outstanding on the records of the company, we are compelled to reflect it in our balance sheet.

MR. GEARY: The Canadian National Railways were originally the Trans-continental?

MR. COOPER: No, sir, the Canadian National Railway company is the successor by amalgamation to the Grand Trunk Railway Company of Canada, purely.

MR. GEARY: So that these are all Grand Trunk holdings, really?

MR. COOPER: Under the heading of Canadian National Railways. But the system includes the Canadian Northern, the Grand Trunk Pacific and the Canadian Government Railway.

HON. MR. STEVENS: Can you indicate what is held by other than the government?

MR. COOPER: It is the difference between \$265,000,000 and \$270,000,000, approximately \$5,000,000 in par value.

MR. GEARY: Practically all the items except the two you have named?

MR. COOPER: That is what accounts for the difference, all except the two big items which I have mentioned.

HON. MR. STEVENS: The \$165,000,000 and the \$100,000,000?

MR. COOPER: Yes.

HON. MR. STEVENS: And all the other is held by private individuals?

MR. COOPER: That is correct, Mr. Stevens.

HON. MR. STEVENS: Who holds this \$3,849,000 of the Canadian Northern Quebec Railway Company?

MR. COOPER: We have a foot note against that at the end of page 35:

\$5,144,600 Canadian Northern Quebec stock is held by the Northern Consolidated Holding Company. The Canadian Northern Railway owns 44,467 shares in that Company out of a total issue of 61,815. For the purpose of this statement the Holding Company is ignored and the proportion of the Canadian Northern Quebec Stock thus owned by the Canadian Northern Railway is shown as held by the latter Company.

So that this amount of \$3,849,000 is owned by the Northern Consolidated Holding Company. Who the shareholders of that company are, I do not know.

HON. MR. DUNNING: But the \$3,800,000 is what is held by the public in the Canadian Northern Quebec, outside of the holding company altogether?

MR. GEARY: That is the proportion of the five millions that is represented by the forty-four thousand out of the sixty-one thousand?

HON. MR. STEVENS: That virtually belongs to the Canadian National, then?

MR. COOPER: No, it is the proportion of the Canadian Northern Quebec stock which belongs to the minority holders of the Northern Consolidated Holding company.

HON. MR. STEVENS: That is, you own 44/61sts of the nine million?

MR. COOPER: Yes.

HON. MR. STEVENS: You have got it reversed, I am afraid. This \$3,849,000 represents what the Canadian National own, if the Holding company's stock were distributed?

MR. GEARY: That is, as 44,000 is to 61,000 I think.

HON. MR. STEVENS: Yes, you have got it reversed, I should think. The holding company holds \$5,144,000 worth of stock.

Sir HENRY THORNTON: Forty-four sixty-firsts is a little over seventy per cent; and seventy per cent of \$5,144,000 is roughly \$3,800,000.

Hon. Mr. DUNNING: Is not the explanation, Mr. Cooper, that in addition to the Northern holdings of this stock there are some Canadian Northern holdings?

Mr. COOPER: I believe there is certain stock of the Canadian Northern Quebec itself which is held by the public.

Hon. Mr. DUNNING: There is \$5,700,000 held by the system.

Mr. COOPER: There may be some Canadian Northern Quebec stock itself held by the public.

Hon. Mr. DUNNING: They come around to see me once in a while and want to be paid for it, so that I am reasonably sure that there is.

Hon. Mr. STEVENS: It is not important, but I do not quite see it. I gather from Mr. Cooper's answer that the \$3,849,000 of the Canadian Northern Quebec is owned by parties other than the Canadian National Railways.

Mr. COOPER: Yes, that is right.

Hon. Mr. STEVENS: That does not seem to me to harmonize with the foot note. That is the point I do not see.

Mr. GEARY: You are missing that. The system holds \$5,700,000 of which the forty-four sixty-firsts is part.

Mr. COOPER: May I explain that again. There is \$5,144,600 Canadian Northern Quebec stock held by the Northern Consolidated Holding Company. The Canadian Northern have 44,467 shares out of the 61,815 shares of that \$5,000,000. There will be a certain amount then of Canadian Northern Quebec stock owned by the Northern Consolidated Holding Company; that amount plus the Canadian Northern Quebec stock which is held directly by others than the Canadian Northern and the Northern Holding Company, make up the \$3,849,200.

Hon. Mr. STEVENS: Yes, I see that now.

The CHAIRMAN: You mean of the minority shareholders?

Mr. COOPER: Yes.

Mr. McLEAN (*Melfort*): Where is the balance then of the three and one half millions of the Canadian Northern Quebec stock?

Mr. COOPER: The Canadian Northern proportion of the Northern Consolidated Holding Company holdings in Canadian Northern Quebec stock is included in this item of \$5,700,800. That is the next item against the \$3,800,000.

Mr. McLEAN (*Melfort*): Oh yes.

Mr. HENRY: Under Capital Stock the total is \$9,550,000?

Mr. COOPER: Yes.

Mr. HENRY: What is the difference between the amount which the Canadian National holds by virtue of the Northern Consolidated Holding Company and the amount which it holds apart from that?

Mr. COOPER: Well, that would just have to be worked out.

Hon. Mr. DUNNING: There must be a holding by the company itself in addition to the Consolidated Holding Company.

Hon. Mr. STEVENS: Exactly. That is where the difference lies.

Hon. Mr. DUNNING: That is not important.

Mr. COOPER: I will have that figured out and give you the answer later.

Hon. Mr. STEVENS: But it is not important, Mr. Chairman, I think.

The CHAIRMAN: Account No. 752.

Mr. COOPER: That is on page 15. The second item, "Stock Liability for Conversion," \$10,600.

Account 754, "Grants in Aid of Construction," \$16,730,086.07.

Hon. Mr. STEVENS: What does that represent?

Mr. COOPER: The principal item in that is \$15,142,633 which was paid by the Province of Upper Canada to the old Grand Trunk.

Mr. McLEAN (*Melfort*): You are still holding that as a liability?

Mr. COOPER: The liability is now held by the Dominion of Canada as successor to the provinces of Upper and Lower Canada and is junior to the common stock. By the award of the arbitration the common stock was held to be worthless.

Hon. Mr. DUNNING: That is a really classical explanation.

Hon. Mr. STEVENS: Why carry it along in the balance sheet in that form?

Mr. COOPER: We are hoping to get it out one of these days.

Sir HENRY THORNTON: That, Mr. Stevens, is just an example of a lot of items which are the result of the accumulations of the last fifty years; and it is one of the things which causes a chaotic condition, and is one of the reasons for the desired simplification of the whole financial structure in which all these old cats and dogs can be wiped out.

Hon. Mr. STEVENS: It seems to me that this is one of the kittens which might be drowned forthwith.

Sir HENRY THORNTON: When you start zoological drowning it brings us into all sorts of complications, and it would be better to have a little deluge one of these days.

Hon. Mr. STEVENS: After all it is carried here in a more or less ostentatious manner, because after all there are not many items on this list.

Mr. GEARY: Is this a Credit Valley, or Old Toronto Gray and Bruce?

Mr. COOPER: No, it was cash which was turned over to the Grand Trunk to aid in the construction of the Grand Trunk proper; not of the subsidiaries of the Grand Trunk.

Hon. Mr. STEVENS: There was no interest on it, I suppose.

Mr. COOPER: No, they were to receive dividends after the company got into a position to pay dividends on common stock. As far as the company is concerned there is that debt, and until the Government give up the security we must carry this in our balance sheet.

Hon. Mr. DUNNING: I think of all the securities which the government hold this is the poorest, because the arbitration ranked it after the stock which the arbitration held to be worthless.

Hon. Mr. STEVENS: I think the Deputy Minister should approach the Minister and suggest the wiping out of this thing.

Sir HENRY THORNTON: We will suggest the reconstruction of the financial structure of this road, and when that is done, if it is approved, all these will disappear. This is but one of the minor horrors.

The CHAIRMAN: Item 755.

Mr. COOPER: Account 755, Funded Debt unmatured, \$977,889,032.94.

Mr. JELLIFF: That seems to be a little less than last year. Did you pay off some item of matured debt?

Mr. COOPER: We retired Trust Notes \$6,041,400; Canadian Northern 5 per cent Income Charge Debenture Stock \$24,137,846.08; and Miscellaneous Items of \$2,088,714.10. Total Retirements \$32,267,960. Against that we had new issues, 4½ per cent forty year guaranteed Gold Bonds \$26,344,000; State of Michigan, Woodward Avenue, \$2,441,256.60.

Mr. JELLIFF: On the whole you have reduced the funded debt.

Mr. COOPER: By \$3,492,703.

Hon. Mr. DUNNING: That was due to buying Canadian Northern Bonds at less than their face value?

Mr. COOPER: Substantially, yes.

Hon. Mr. STEVENS: On page 28, might I ask Mr. Cooper or Sir Henry this question. On February 1st 1929, there are 4 per cent Sifton Branch Bonds, Canadian Northern, guaranteed by the province of Manitoba, to the amount of \$1,137,340; and another item of 4 per cent Manitoba and Southeastern Bonds, Canadian Northern, maturing February 1st, 1929, amounting to \$510,513.34. Were these two retired?

Mr. COOPER: Yes Sir.

Hon. Mr. STEVENS: By the Canadian National system?

Mr. COOPER: Yes Sir.

Hon. Mr. STEVENS: And the guarantee of the province of Manitoba released accordingly?

Mr. COOPER: I should think so.

Hon. Mr. STEVENS: How do you treat these provincial guarantees, Sir Henry?

Sir HENRY THORNTON: In what respect?

Hon. Mr. STEVENS: The provincial guarantees on these Bonds, are they treated as being wiped out?

Sir HENRY THORNTON: When the issue matures, unquestionably the guarantee disappears with it.

Hon. Mr. STEVENS: And do you look upon the Provincial Guarantee still in force while the Bond is in force?

Sir HENRY THORNTON: Technically we must. We have never had any question of default on them, and the question has never been raised, to my knowledge, as to what extent the guarantor would be called upon to make good on his guarantee.

Hon. Mr. DUNNING: There was once. I was on the other end of the deal, in connection with one case in which default was permitted to occur.

Sir HENRY THORNTON: That must have been some time ago.

Hon. Mr. DUNNING: Just about the time you came, Sir. This would probably illustrate what would happen in all such cases. There was a time when, with respect to the Grand Trunk Pacific Branch Line Bonds guaranteed by the province of Alberta and Saskatchewan, the interest payments were not paid by the Dominion on the due date. Speaking for Saskatchewan, as I did at that time, and I think Alberta did the same, the province immediately honoured its guarantee and met the interest. Under the terms of the Trust Deed and the mortgage, however, the province then acquired by that payment certain rights with respect to the property, rights which became operative—I am saying this subject to correction—after the payment of, I think, three or four interest payments; at any rate two years was the period involved. And the Dominion allowed the provinces to pay three out of the four payments which would have given the provinces their rights under the mortgage, and then paid the fourth one; and they have allowed default to occur the second time. During that period the matter was under negotiation between the two Governments, and finally the Railway decided that it desired to retain this branch line; and the only means of retaining them was by honouring the obligations; otherwise the provinces would have taken possession. I cannot speak for all of them, but in respect of that class of case, that did apply.

Hon. Mr. STEVENS: Speaking of the inter-corporation policy, or of the government represented by the provinces in regard to all these guaranteed

bonds of Alberta, Saskatchewan, and Manitoba, is it tacitly agreed that the provincial guarantee shall be wiped out now that the National Railway has taken possession?

Mr. GEARY: The bondholders would have something to say to that.

Hon. Mr. STEVENS: As between the provincial governments, and the federal government is there any understanding?

Hon. Mr. DUNNING: No, there is no understanding. I can only conceive of the question arising if Sir Henry Thornton should report to me, as Minister, that a certain line is not worth to the system what it is costing the system. In that case we would have to face the question. In the meantime, however, I should say that Sir Henry would say we want to retain all the lines we have.

Sir HENRY THORNTON: I do not know any line in which such a condition would arise as has been suggested.

Hon. Mr. DUNNING: So long as the bonds are running the provision of the Trust Deed must maintain. In fact when we want to sell a little bit of property held under the Trust Deed, we have to go through a lot of forms. We must maintain the legal form as long as the bonds are in existence. The retirements this year, for instance, were for the very good reason that they wanted to retain ownership.

Mr. GEARY: Under all the circumstances, I think you would have a good deal of difficulty in relinquishing any of them.

Hon. Mr. DUNNING: Yes, it would be a very tangled situation.

Hon. Mr. STEVENS: In connection with the item on page 28, about half-way down, of \$26,000,000, 4½ per cent forty year guaranteed Gold Bonds. In the statement previously, in Sir Henry's report, he says that no trust agreement was entered into with regard to this issue. Is there any significance in that, or what was the form of the issue of those bonds? Why was there no trust agreement?

Mr. HENRY: That is a government guarantee. It is not a mortgage, and therefore each bond includes on it all the terms.

Hon. Mr. STEVENS: Individually guaranteed by the government?

Mr. HENRY: Individually guaranteed; and there was no Trust Deed necessary.

Hon. Mr. STEVENS: I think perhaps right here I might ask this. I ran over this list and I noticed that within the present fiscal year, that is in February, 1930, there are \$19,000,000 falling due, maturing, and Equipment Bonds of about \$3,000,000; that would be about \$21,000,000 by February next. What provision is there made to meet that, or how do you propose to retire those?

Sir HENRY THORNTON: That is next year. Mr. Stevens.

Hon. Mr. STEVENS: That is your fiscal year ends on the 31st December?

Sir HENRY THORNTON: Our fiscal year ends December 31st.

Hon. Mr. STEVENS: Then I might mention that next year, taking the whole calendar year, you have some \$41,000,000 coming due.

Mr. HENRY: The ordinary procedure there is to float issues when these retirements come due; or to temporarily take care of them by temporary financing, if financial conditions are not satisfactory.

Mr. JELLIFF: How much will you have to take care of this year?

Hon. Mr. STEVENS: There are two small ones.

Sir HENRY THORNTON: There are two items amounting to \$6,000,000 odd and \$3,514,000.

Hon. Mr. STEVENS: There are quite a few Equipment Bonds, serial.

Sir HENRY THORNTON: There are about ten, I should think, Equipment Trusts.

Hon. Mr. STEVENS: Where is that \$6,000,000 that you refer to?

Sir HENRY THORNTON: Would you like to have the names read out?

Hon. Mr. STEVENS: Is it in the Equipment Bonds?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: I see there are a number of Equipment Bonds mentioned here.

Sir HENRY THORNTON: Yes, that is it.

Hon. Mr. STEVENS: But you mention \$6,000,000, and I just wondered where that came in.

Sir HENRY THORNTON: That is some of them.

Mr. COOPER: Equipment Trust Bonds, series C, \$375,000; series D, \$750,000; series E, \$1,000,000; series F, \$800,000—

Hon. Mr. STEVENS: Where is that?

Mr. COOPER: Series E is one of the unguaranteed issues.

Sir HENRY THORNTON: Mr. Stevens has only the annual report before him, and he wants to know where that appears in the annual report.

Hon. Mr. STEVENS: I went over it pretty carefully and I do not find anything like that reflected here. All we have in the Equipment Bonds here are series B, \$375,000; series C, \$375,000; series D, \$750,000.

Mr. COOPER: In series E, there is \$14,000,000 outstanding.

Hon. Mr. STEVENS: That is for 1935?

Mr. COOPER: There is an explanation to be made. The total issue falls due May 1st, 1935, but we pay into a sinking fund each year \$1,000,000, so that the amount of \$6,000,000 includes that \$1,000,000 and series F, \$800,000. Series G, which is on the opposite side, is a guaranteed Equipment Trust.

Hon. Mr. STEVENS: That is 1938, and then there is a portion of that maturing?

Mr. COOPER: It matures serially up to 1938 by annual instalments of \$1,500,000.

Hon. Mr. STEVENS: You will understand the reason why we cannot ascertain from this, because it does not indicate how much matures, and I was taking only the maturing dates appearing on the statement.

Mr. COOPER: We try to show as well as we can what is a serial issue, and there is an annual instalment payable each year.

Hon. Mr. STEVENS: Then your total maturing is what?

Mr. COOPER: Of principle, \$6,316,400, including two items which go into the sinking fund.

Mr. GEARY: One of them I notice is 7 per cent.

Mr. JELLIFF: Where is series F?

Mr. GEARY: F, is about the fourth one down, on page 29, Mr. Cooper, your series A, I see there is no principle outstanding, but there is interest accrued for 1927 and 1928. How is that?

Mr. COOPER: It matured July 1, 1928, so that there would be the first six months' interest charged to the 1928 account; but at December 31, 1928, the Bonds had been discharged; and as this is a statement of condition at December 31, 1928, there was no principle outstanding.

Mr. GEARY: But there are interest outstanding?

Mr. COOPER: No, that is not outstanding; this is interest charged, which has accrued during the year.

Mr. JELLIFF: This is the total which we have to meet this year, \$6,000,000 odd?

Mr. COOPER: Of the Equipment Trusts.

Mr. GEARY: There are none of the 7 per cent on the market, are there?

Sir HENRY THORNTON: Not at a purchasable price, probably.

The CHAIRMAN: Any other question? Dominion of Canada Accounts.

Mr. COOPER: Dominion of Canada Account, \$1,290,216,481.91.

Mr. GEARY: You have shown your interest simply as interest, not compounded?

Mr. COOPER: Yes.

Mr. GEARY: Is that the usual practice in showing an indebtedness on a railway? It is not with a bank.

Mr. COOPER: I should say that the situation between the Dominion Government and the Canadian National Railways has no parallel. I doubt whether the charge of simple interest on such an amount of debt should be charged. That is to say, it is not a question of whether we should compound interest; it is a question whether the simple interest charged is not excessive.

Mr. GEARY: Or the principle, for that matter.

Mr. COOPER: And the principle.

Hon. Mr. DUNNING: It is a question, as Mr. Cooper says, whether or not simple interest is properly charged.

Mr. COOPER: It is something like a shareholder charging interest against a company on his capital investment.

Mr. GEARY: It has to be shown somewhere I should say.

Hon. Mr. DUNNING: At present, yes.

Hon. Mr. STEVENS: On that question of the financial reconstruction, is that seriously under way?

Hon. Mr. DUNNING: It is seriously under way. It has been very seriously under way ever since I have had anything to do with the railroad.

Hon. Mr. STEVENS: When do you expect to be in a position to disclose anything.

Sir HENRY THORNTON: That is hard to say. As I said yesterday the complicating factor which has arisen did change the prospects for this session.. And until that is disposed of, you can readily understand that if anything arose in connection with Grand Trunk Stocks, particularly having regard to the contention made by the holders of them, it would simply change our whole view of the situation. We are very anxious to get it completed, and I assure you we will have it ready as soon as it can be done.

Hon. Mr. STEVENS: Is there any likelihood of having it for next session?

Hon. Mr. DUNNING: I will be very disappointed if it is not, and I think Sir Henry will be, too.

Sir HENRY THORNTON: We have completed all our work on the railway side, and I should be very disappointed and considerably amazed if it did not come up next session. I am only speaking from what I suspect to be the situation. The Minister is the only one who can speak with authority as to what will happen next session.. That is beyond my sphere of political activity.

Hon. Mr. DUNNING: The raising of this question has a very serious bearing on the whole matter.

Mr. GEARY: Mr. Cooper, will you take up your account 755, "Funded Debt unmatured" in the hands of the public, \$977,000,000. You have to pay interest on that right along?

Mr. COOPER: Yes.

Mr. GEARY: Then the Dominion of Canada account, "Funded Debt unmatured"—you will pay no interest on that to anybody?

Mr. COOPER: No. There is included \$33,048,000 of Grand Trunk Pacific 3 per cent bonds which are held by the Dominion of Canada, we accrue interest on that, but do not pay it over in cash.

Mr. GEARY: Then these loans are, as we understand, and the appropriation account of the Canadian Government railways, that old deficit on the Inter-colonial?

Mr. COOPER: Not the deficit so much as the capital expenditures of the entire Canadian Government railway.

Mr. GEARY: Where would the deficits be?

Mr. COOPER: They were absorbed, I suppose, in the Consolidated Revenue account.

Mr. GEARY: But it must be charged to you—

Mr. COOPER: Not up to the time when we took over the Canadian Government railway for operation. From that time they are included, if we have borrowed against them.

Mr. GEARY: The government never made a claim for them.

Mr. COOPER: For the accumulated deficits up to 1923? No sir.

Mr. GEARY: I think there were \$420,000,000 written off in one year. They were carried as active assets at one time.

Hon. Mr. DUNNING: Yes, and I think in 1919 they went over as non-active assets.

Hon. Mr. STEVENS: Sir Henry Drayton carried them over as non-active assets.

Mr. COOPER: Practically the entire amount of \$1,290,000,000 is in the non-active assets.

Hon. Mr. DUNNING: As a matter of fact, if to-day the government decided to write off completely from its books the whole of this \$1,290,000,000, very little of it would affect the net debt, because it stands as a non-active asset.

Mr. McLEAN (*Melfort*): If you wipe this off, you would increase the net debt.

Hon. Mr. DUNNING: Not all of it, but nearly all of it.

Hon. Mr. STEVENS: A substantial part of this is now classified as a non-active asset.

Mr. McLEAN (*Melfort*): Supposing something happened, by which the railway discovered a gold mine, and value was put into that \$1,290,000,000; the net debt would not be reduced by anything like that.

Hon. Mr. STEVENS: Yes, it certainly would.

Hon. Mr. DUNNING: To the extent that it was transferred from a non-active to an active asset.

Sir HENRY THORNTON: Incidentally the government is threatened with that very gold mine.

Mr. McLEAN (*Melfort*): If this is written off the capitalization, it becomes added to the net debt, whereas at the same moment if value is put into it, it is deducted from the net debt.

Hon. Mr. STEVENS: It would give the company known as the Dominion of Canada more standing, better assets and would thus reduce your debt, but I hesitate to anticipate a gold mine.

Mr. BELL (*St. Antoine*): Has there been any refinancing during the past year?

Mr. COOPER: We retired debts amounting to \$32,267,960, of which \$6,041,000 was equipment trust notes, \$24,137,000 was Canadian Northern 5 per cents, and \$2,000,000 was miscellaneous.

Hon. Mr. STEVENS: Mr. Chairman, I think while we are discussing in a rather desultory way the question of financing, I would like to ask a few questions of Sir Henry in an endeavour to get a picture which will reflect the situation more clearly from a financial standpoint. If I might put my questions without interruption—I do not want to absorb too much time—I would like to follow the series of questions right through, if Sir Henry will permit it. I started it the other day, but we got off into side pastures and arrived nowhere. Now, Sir Henry, last year Parliament appropriated on these estimates \$39,000,000. May I ask if that \$39,000,000 which was appropriated was spent for various items of cost, whether refinancing or otherwise, for the year 1928?

Sir HENRY THORNTON: In other words, you would like to know how that \$39,000,000 was disbursed in 1928.

Hon. Mr. STEVENS: Exactly.

Mr. COOPER: Against that \$39,000,000 appropriated, our total expenditure under the budget was \$33,455,445.20.

Sir HENRY THORNTON: Mr. Stevens wants the details of that \$39,000,000. What did we do with that in 1928?

Hon. Mr. DUNNING: It is set down in the estimates and it would probably save time if the statement could be included in the record.

CANADIAN NATIONAL RAILWAYS

ESTIMATED FINANCIAL REQUIREMENTS AND RESOURCES APPLICABLE THERETO, AS BUDGETED FOR 1928 COMPARED WITH ACTUAL FINANCIAL REQUIREMENTS AND RESOURCES APPLICABLE THERETO

	Estimated Amount	Actual Amount	Difference Over in Roman Under in Italics
Interest on Funded and Other Debt.....	\$40,564,010 29	\$38,293,444 62	\$2,270,565 67
Grand Trunk Pacific Guaranteed Interest.....	1,108,080 00	1,108,080 00	
Dividend on G.T.R. 4% Guaranteed Stock.....	2,433,333 33	2,433,333 33	
Sinking Fund Payments.....	1,012,425 88	984,345 61	28,080 27
Equipment Principal Payments.....	7,841,400 00	7,841,400 00	
Retirements on Capital Obligations.....	780,929 72	538,418 05	242,511 67
Total Financial Requirements.....	\$53,740,179 22	\$51,199,021 61	\$ 2,541,157 61
Less: Resources (Ex. Eastern Lines).....	\$41,814,919 22	\$49,319,343 87	\$ 7,504,424 65
Deficit on Eastern Lines (Ex. Interest on H. & S.W. First Mortgage Bonds—\$155,645.00).....	6,192,999 50	6,196,239 26	3,239 76
Net Financial Requirements.....	\$18,118,259 50	\$ 8,075,917 00	\$10,042,342 50
General Additions and Betterments.....	25,685,385 00	23,683,912 46	2,001,472 54
New Equipment Trust "K"—\$3,000,000.00.....	1,000,000 00	3,902,508 19	2,902,508 19
New Equipment Trust "K" and "L"—Funds held awaiting delivery of equipment.....	545,000 00	2,047,500 00	2,097,491 81
Discount on Securities to be Issued.....			1,502,500 00
			\$ 5,541,315 04
Less: Financial Requirements of Eastern Lines to be provided for in the Estimates of the Department of Railways and Canals as follows:—			
Maritime Freight Rates Act 1927.....	\$ 1,930,000 00	\$ 2,151,527 75	\$ 221,527 75
Deficits in Net Income due to causes other than the operation of the Maritime Freight Rates Act 1927..	4,418,644 50	4,200,356 51	218,287 99
Total.....	\$39,000,000 00	\$33,455,445 20	\$ 5,544,554 80

Hon. Mr. STEVENS: Of the \$33,000,000 which you spent—that is covered by the \$35,000,000 issue shown on page 7.

Mr. COOPER: Part of it was financed by the issue of \$35,000,000.

Hon. Mr. STEVENS: That is, \$21,500,000.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And the balance is financed by borrowing from the bank the \$40,000,000.

Mr. COOPER: That is correct.

Hon. Mr. STEVENS: May this other statement also be put in the record?

The CHAIRMAN: Yes.

\$35,000,000 4½% Bonds DATED DECEMBER 1st, 1928

—	Par value	Discount and Interest	Net proceeds placed on deposit	Released or to be Released	
				Branch Lines and Toronto Terminals	1928 Budget
Sold Dec. 20-21, 1928.....	\$26,334,000 00				
Discount.....		1,540,539 00			
Interest to date on sale.....		62,885 84			
			24,856,346 84		
Releases to Dec. 31, 1928.....			8,072,750 88	2,309,280 17	5,763,470 71
Position Dec. 31, 1928.....	\$26,334,000 00	\$ 1,477,653. 16	\$16,783,595 96	\$ 2,309,280 17	\$ 5,763,470 71
Sold Jan. 3, 1929.....	8,666,000 00				
Discount.....		506,961 00			
Interest to date of sale.....		35,257 53			
			8,194,296 53		
Interest on deposits.....		181,477 09	181,477 09		
Releases since Jan. 1, 1929.....			17,856,759 95	3,986,588 87	13,870,171 08
Position March 31, 1929.....	\$35,000,000 00	\$ 1,767,879 54	\$ 7,302,609 63	\$ 6,295,869 04	\$19,633,641 79
Net proceeds to be drawn down.....			7,302,609 63	7,204,130 96	98,478 67
Discount and interest applied against 1928 Budget.....		1,767,879 54			1,767,879 54
Final position.....	\$35,000,000 00			\$13,500,000 00	\$21,500,000 00

\$40,000,000 SHORT TERM NOTES DATED OCTOBER 15TH, 1928

—	Total Issue	1927 Budget	Can. Nor. Income Charge Debenture Stock	Branch Lines and Toronto Terminals	1928 Budget
Position at Dec. 31, 1928 and at March 31, 1929.....	\$40,000,000 00	5,900,000 00	22,748,109 60		11,351,890 40
Both Issues Combined....	\$75,000,000 00	5,900,000 00	22,748,109 60	13,500,000 00	32,851,890 40

Hon. Mr. STEVENS: Now in regard to the \$40,000,000 referred to on page 8 of this statement: I understand part of that is borrowed from the bank to cover various items for which expenditures have already been made in 1928.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: In other words, we owe—that is, the company owes the bank \$40,000,000 on December 31, 1928?

Mr. COOPER: Yes. And in addition to that, we have \$3,500,000 for the Manitoba Northern.

Hon. Mr. STEVENS: Then I understand from the statement of Sir Henry's that it is intended during the present year to arrange long term financing in which the moneys provided by the bank as above will be repaid.

Sir HENRY THORNTON: You understand why that temporary financing was done? Because of the state of the money market.

Hon. Mr. STEVENS: Quite so. Now, included in this item of \$40,000,000 was there any carryover from the year before other than the \$5,900,000 shown on page 8?

Mr. COOPER: No.

Hon. Mr. STEVENS: That was all for the budget of 1928, plus this item of refunding.

Mr. COOPER: And plus the \$5,900,000 for the 1927 budget.

Hon. Mr. STEVENS: Now, in 1929-30, according to the Minister's budget, you require \$53,750,000.

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: And also according to the statement, you are providing \$50,000,000 for the Montreal terminal, of which you will require \$10,000,000 this year.

Sir HENRY THORNTON: We would not be able to spend \$10,000,000 this year.

Hon. Mr. DUNNING: The bill will provide that not more than \$10,000,000 can be spent in any one year but it is not anticipated that \$10,000,000 will be spent this year.

Hon. Mr. STEVENS: I am trying to get at the requirements. I understood the other day that \$10,000,000 would be required this year.

Sir HENRY THORNTON: We could not spend \$10,000,000 this year. I am perfectly certain of that. The bill, as the Minister says, will provide for an amount not to exceed \$10,000,000 per year, but \$10,000,000 cannot be spent this year. I wish it were possible.

Hon. Mr. STEVENS: In addition to that, I think you said there were equipment bonds amounting to \$6,000,000.

Mr. COOPER: They are included in the \$53,000,000.

Hon. Mr. STEVENS: Allowing for \$10,000,000 for Montreal, it make a total of \$103,750,000 to be provided for this year, and striking off the \$3,000,000—

Hon. Mr. DUNNING: You have still forgotten one item to make the picture complete. That is the item of branch lines.

Sir HENRY THORNTON: I can tell you what our total requirements are, item by item.

Hon. Mr. STEVENS: Then let us have them.

Sir HENRY THORNTON: The Edmonton, Dunvegan and British Columbia Railway \$2,500,000; Quebec, Montreal and Southern, \$6,000,000; Inverness Railway and Coal Company, \$375,000; Quebec, Oriental and Atlantic, Quebec and Western Railway, \$3,500,000; The Kent Northern Railway, \$60,000; 1927-30 branch line program, \$1,500,000; new branch lines now before Parliament approximately \$1,500,000; 1929 budget, \$53,750,000; Manitoba Northern Railway, \$7,000,000; loan account, Central Vermont bonds, \$8,609,000; temporary borrowings from bank, \$40,000,000; new equipment, \$18,000,000; all of which make a total of \$142,794,000.

Hon. Mr. STEVENS: Does that include the interest to the public?

Sir HENRY THORNTON: No, that includes no interest. We pay that out of our resources.

Hon. Mr. STEVENS: What is the interest to the public?

Mr. COOPER: As Sir Henry stated the interest comes out of our operations.

Hon. Mr. STEVENS: I am getting at the total obligations.

Sir HENRY THORNTON: That is the capital account.

Hon. Mr. STEVENS: What will your interest to the public be?

Sir HENRY THORNTON: Our total interest on securities in the hands of the public is something like \$42,000,000.

Mr. COOPER: It is about \$45,500,000 in 1929. We are estimating that amount.

Hon. Mr. STEVENS: That means \$186,000,000 which you have to finance in 1929—

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: Wait just a moment—

Sir HENRY THORNTON: Pardon me.

Hon. Mr. STEVENS: —and to meet that you will have your anticipated surplus earnings on operation, which this year amounted to \$43,000,000 net, after taking off the Eastern Lines.

Sir HENRY THORNTON: There is nothing to be added to the figures I have given.

Hon. Mr. STEVENS: You mean that interest is included in the \$53,000,000.

Hon. Mr. DUNNING: No, the resources are deducted before the \$53,000,000 is arrived at.

Sir HENRY THORNTON: We do not capitalize the interest.

Hon. Mr. STEVENS: We only want to know that the interest is provided for. I assumed it was, but Sir Henry said it was not.

Sir HENRY THORNTON: It is not provided for in the budget. The figure I gave you represents the capital requirements. The interest will come out of our resources.

Hon. Mr. STEVENS: Then if we ignore the resources as well as the interest, it will leave \$141,000,000.

Sir HENRY THORNTON: And from that I have subtracted an amount for the Canadian National Steamships and the Merchant Marine.

Hon. Mr. STEVENS: How do you propose to provide for that this year?

Sir HENRY THORNTON: That will be financed in the course of the year as and when circumstances permit advantageous financing.

Hon. Mr. STEVENS: The reason I am querying on this very closely is that I consider this to be the most serious question that we as the representatives of the shareholders, as it were, have to deal with. You are carrying over from last year \$40,000,000, and, after all, that is a handicap to financing, is it not?

Sir HENRY THORNTON: I do not think so.

Hon. Mr. STEVENS: Possibly not, but I would think it would be. It is a very, very large sum to finance for the National railway in one year.

Sir HENRY THORNTON: No, not considering the magnitude of the company's operations.

Hon. Mr. STEVENS: Is it a part of the policy of the road to finance a substantial portion of its requirements in this manner mentioned here, by borrowing from the bank up to \$40,000,000 or \$50,000,000?

Sir HENRY THORNTON: It is the policy of the company to within each year finance its capital requirements for that year, but should certain circumstances be such that advantageous borrowings cannot be made during that year, it is much better to temporarily finance at perhaps a somewhat higher rate of interest for a short period than to finance for a long period at a high rate of interest. In other words, we arrange for our financial requirements each year

if conditions permit that to be done with advantage. If we cannot, we do what any other business enterprise would do—and many railways do—we issue some form of short term notes until the money market permits us to finance advantageously.

Hon. Mr. STEVENS: That is perfectly sound up to a certain point. Now, the question arises naturally when do we reach the point where the margin of safety is exhausted? I submit that with \$40,000,000 brought forward from last year you are fairly well absorbing the degree to which you are warranted in going in temporary financing.

Sir HENRY THORNTON: No. None of us in any business enterprise would want to do more temporary financing that circumstances require, but if you have to do it, you have to do it; that is all there is to it.

Hon. Mr. STEVENS: I suppose that is axiomatic, but what rate of interest are you paying on the \$40,000,000?

Sir HENRY THORNTON: Five and a quarter, which considering the general condition of the money market is a very good rate from the company's point of view.

Hon. Mr. STEVENS: Now, having in mind the heavy exports of gold from Canada to New York during the last couple of years and the fact that the Canadian dollar is 25/32nds below par, is there any likelihood of financing on the New York market this year?

Sir HENRY THORNTON: Yes, but to estimate what the money market is going to be is a good deal like estimating what is going to happen to our crops each year. It is difficult to estimate that, and we can only seek the best opinion possible. Our opinion is that before the first of the year we shall have cleared up this financial situation. Your estimate is just as good as mine.

Hon. Mr. STEVENS: You would not care to intimate to the Committee the plans and expectations you have, or the method by which you expect to finance this?

Sir HENRY THORNTON: The moment the money market eases and the banking world feels that we can finance advantageously, we shall immediately do so.

Mr. HENRY: Mr. Stevens, if you will refer to page 7 of the previous annual report, you will see that in the year \$65,000,000 of financing was taken care of. That is \$65,000,000 was issued; that was an accumulation.

Hon. Mr. STEVENS: That was a very good year to finance. There was no difficulty in making an issue then at all. The significance of all this, I think, and it is only fair to frankly face it, is that with \$141,000,000 to finance and with obviously the money market not nearly as good as it has been in recent years, the government, parliament, or the country, must estimate whether they are cutting their suit to fit the cloth, or whether we are overdoing the thing.

Sir HENRY THORNTON: A good many of these things were things which from many points of view were unavoidable. A large percentage of the items which are represented on this list do not represent money which will bring no return. As a matter of fact it is money which will result, in the last analysis, in increasing the net earnings. What I mean to say is this, that there is no objection to borrowing any amount of money, a billion dollars if you like, at 5 per cent or 6 per cent if the return to the borrower on the use of that money brings him net 10 per cent, say. Under those circumstances, the more money he borrows the better. That is what happens in every business organization. if you can borrow money at the current rate of interest and absorb that money into your enterprise, and through that enterprise make an amount in excess of the rate of interest, it is good business to do so.

Hon. Mr. STEVENS: On the other hand, of course, there always comes a time when it is incumbent upon the head of a business to determine whether the capital expansion is warranted in view of the return and of the actual condition of the company.

Sir HENRY THORNTON: That is quite right, Mr. Stevens, quite right.

Hon. Mr. STEVENS: I am just bringing this point out now for the purpose of the Committee this year being thoroughly advised of what is being recommended to parliament and being authorized and approved of as far as this Committee is concerned.

Sir HENRY THORNTON: I would very much prefer if the money market were such as that we could proceed with our financing as in years gone by. There is no good in saying that we like this situation, because we do not like it; but it is the best, we feel, that can be done, having regard to all the circumstances. And it causes the Financial Officers of the Company and myself no great anxiety. Certainly, if anybody's head is at stake, it is ours.

Hon. Mr. STEVENS: I hope you will not think, Sir Henry, that I am doing this in any spirit of captious criticism of yourself, because I think you have had a terrific load to carry.

Sir HENRY THORNTON: On the contrary, Mr. Stevens, I am almost anxious to have the fullest investigation by the Committee, and I am always willing to expose everything fully and frankly.

Hon. Mr. STEVENS: For instance, recently we have passed a number of bills, which are generally known, as branch line construction, and it is always a very difficult thing to pick out any one thing and criticize it. I am not doing that; but I do say that parliament has been pretty generous in passing these Bills and it might be that the management, in view of the situation, should look them over very carefully.

Sir HENRY THORNTON: We do, and as a matter of fact we reject a great many more proposals than are accepted.

Hon. Mr. STEVENS: I think the Committees of Parliament, both the Railway Committee and this Committee, are reposing more confidence in your judgment and in the judgment of your very excellent staff, and I think the Minister will agree with this, that this year virtually everything which was suggested as coming from yourself and your staff was accepted without question. And Parliament having adopted that attitude, it simply throws back upon the management all the more responsibility.

Sir HENRY THORNTON: I quite agree with that, and I take it that the generosity with which Parliament has treated us in recent years has been due to the steady improvement in the company. That is, the money which has been spent has been wisely spent, and has brought a substantial return. There is not any doubt that in connection with all financial operations, not only the increase in our Capital Debt but in our expenses, it is the responsibility of the officers of the company to proceed with the utmost caution. As a matter of fact, within the last two or three years, we have had very satisfactory results; but that is all the more reason that we should not establish in our own minds as officers, an atmosphere of extravagance. That is to say, money which comes easily we must not spend easily. And our responsibility is to make no recommendation to the Minister unless we feel that it is clearly to the advantage of the company to do it. And, speaking generally, I think that our physiological atmosphere, if one can use such a term, should be one of extreme caution and vigilance in expenditures to counteract this very atmosphere of I shall not call it extravagance but of spending, which always afflicts every enterprise which constantly has mounting net earnings.

Hon. Mr. STEVENS: May I now ask if I may continue—This Inter-State Commission application by the Grand Trunk Western is, I understand, before the Inter-State Commerce Commission but not approved?

Sir HENRY THORNTON: Not yet, no.

Hon. Mr. STEVENS: This is for the amalgamation of a number of companies.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: It is eleven, I believe.

Sir HENRY THORNTON: Thirteen, I think.

Hon. Mr. STEVENS: Thirteen different companies, and you have a scheme of re-financing, have you not?

Sir HENRY THORNTON: Well, if that is approved by the Inter-state Commerce Commission, then we have a plan for re-financing that whole situation.

Hon. Mr. STEVENS: Will that come before parliament or will it not?

Sir HENRY THORNTON: Can you answer that, Mr. Minister?

Hon. Mr. DUNNING: If parliament's sanction is necessary, it will have to be secured, but in any event, parliament will be fully apprised. It is controlled by United States law, you know.

Hon. Mr. STEVENS: I understand that. But the sum which will be required to re-finance?

Sir HENRY THORNTON: I can say this, that the re-financing of the Grand Trunk Western will not require any new money. It contemplates capitalizing the very large improvement in the net position in that property. As the thing stands to-day, it is quite impossible to take advantage of the improved position of the Grand Trunk Western; and one of the objects which we seek in this consolidation is that particular thing.

Hon. Mr. STEVENS: I quite appreciate that what you are doing is issuing new stock for old stock; in other words it will be largely an exchange of securities, I should say.

Sir HENRY THORNTON: I will ask this not to be put in the record, but be considered as confidential by this Committee.

The CHAIRMAN: The reporter will not put into the record what Sir Henry is about to tell us.

Certain information having been given to members of the Committee,

Hon. Mr. STEVENS: May I ask, Sir Henry, regarding Portland. What are you doing in Portland,—anything in particular?

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: The Central Vermont is not included in this American consolidation at all?

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: What is the situation regarding the Central Vermont?

Sir HENRY THORNTON: The general situation with respect to the Central Vermont is this: as you are aware, about two years ago the Central Vermont was visited by a serious flood, which not only did great damage to the Central Vermont Railway, but to the back part of the State through which the Railway ran. And in rehabilitating it we thought it better to put the road into Receivership. The reason for that is perfectly obvious. That rehabilitation has cost us roughly \$5,000,000. The laws of Vermont were extremely rigorous with respect to foreign companies owning the stock of Railways and doing business in Vermont. As a result of this expenditure, we succeeded in having the State Legislature alter the laws so as to improve our position as the pro-

prietary company of the Central Vermont. The Receivership will probably be lifted this autumn; and when that is done, notwithstanding the additional expenditure of \$5,000,000, that property which was formerly an annual loss to the Canadian National Railways, because there was a deficit on the bond interest which we had to make up, will become a profitable company.

In other words, we shall earn more than a sufficient amount to pay the interest on the bonds; and, therefore, curiously enough, what we thought two years ago was a great disaster, so far as the financial position of the Central Vermont is concerned, has turned out to be a blessing.

Hon. Mr. STEVENS: What is our total obligation there, in regard to the Central Vermont?

Mr. GEARY: What did you shake out in the way of stockholders and creditors in your Receivership?

Sir HENRY THORNTON: I do not remember the exact amount, but a very large interest was shaken out.

Mr. COOPER: Our total investment in Central Vermont is \$33,788,798.75.

Mr. GEARY: Including the \$5,000,000 which Sir Henry mentioned a few moments ago?

Mr. COOPER: No.

Mr. GEARY: Will you give us the total amount under the Receiver's certificates?

Mr. COOPER: I think it is about \$5,000,000.

Mr. GEARY: I want our total obligation.

Mr. COOPER: It will be about \$38,000,000.

Mr. McLEAN (*Melfort*): How many miles is in that line?

Sir HENRY THORNTON: 411 miles.

Hon. Mr. STEVENS: I think that is all I want to ask on that, and I thank you very much.

Mr. BELL (*St. Antoine*): What is the estimate for the Central Vermont this year?

Mr. COOPER: About \$5,000,000.

Mr. JELLIFF: Everything has been pretty well brought out. I was simply going to say that the bill of fare which we have been discussing seems to be a pretty large one, as far as the railway is concerned; but at the same time I feel that these appropriations are not to pay for a dead horse. We are really getting something out of the major operations in the program for this year, in our branch line program.

Sir HENRY THORNTON: Unfortunately, a railway is something which is never finished. It is worse than a racing stable, and constantly requires more money to keep it up. But, if the expenditures are wisely made you only increase your net.

Mr. GEARY: I want to straighten up something in my own mind. The 1928 has carried over how much?

Mr. COOPER: Forty-three and one-half millions.

Mr. GEARY: And the figures making up the \$141,000,000 are comprised—are the branch lines included in that?

Sir HENRY THORNTON: Yes, that includes everything.

Mr. GEARY: I want the three items which make up the \$141,000,000.

Hon. Mr. STEVENS: He put in a complete statement for that.

Sir HENRY THORNTON: I do not know that I have quite got your question.

Mr. GEARY: I want to get the general items of the \$141,000,000. The point is that \$141,000,000 of new financing is required this year.

Mr. COOPER: About \$141,000,000.

Hon. Mr. DUNNING: Including about \$10,000,000 for Montreal.

Mr. COOPER: No.

Mr. GEARY: \$40,000,000 odd of that is carry forward?

Mr. COOPER: Yes.

Mr. GEARY: So that \$100,000,000 for this year is new financing?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Is any of that refunding?

Sir HENRY THORNTON: Oh yes.

Mr. GEARY: I do not think that last year you required very much money, and I do not think you require very much money this year.

Sir HENRY THORNTON: About \$10,000,000 is refunding.

Mr. COOPER: I think that we would have to go over all the items to get that.

Sir HENRY THORNTON: Colonel Geary asks approximately how much of the \$141,000,000 is for refunding. We will look that up and give you that at the next meeting.

Mr. GEARY: I would like to know how much of your new requirements are to be financed next year.

Sir HENRY THORNTON: You want to know how much of that is addition to the property. We will get that for you, for the next meeting.

Mr. GEARY: And will the Minister be good enough to take that item, the Dominion of Canada item, as I know a good many of us here are dull about it.

Hon. Mr. DUNNING: You mean the \$1,290,216,481?

Mr. GEARY: Yes. Could you tell us how that has been treated in relation to the National Debt? I think you, with the Department of Finance, can give us a statement as to that.

Hon. Mr. DUNNING: You mean what proportion is in active assets, and what proportion is in non-active? My impression is that the great bulk is active.

Mr. HENRY: All but \$15,000,000 is non-active.

Mr. GEARY: It means that an addition to the public debt, at one time or another, so that we cannot get anything off the public debt in regard to that item, no matter how much we write off.

Hon. Mr. DUNNING: The writing off is an addition to the public debt.

Mr. GEARY: So that any addition which you make to the structure will not be a reduction in the public debt?

Hon. Mr. DUNNING: It will then operate to increase the public debt, as far as the \$15,000,000 now carried as an active asset is concerned. Mr. Henry will give you an analysis of that.

Sir HENRY THORNTON: Mr. Geary said that there was no way to alter any of that amount into an active asset, and the reply was, no it could not be so altered. I am not prepared to agree with that at all.

Hon. Mr. DUNNING: No, I did not mean that.

Mr. GEARY: I see how Sir Henry got that idea.

Mr. CANTLEY: Can you give us any idea of when you are going to take up the Merchant Marine?

Sir HENRY THORNTON: That is according to the pleasure of this Committee.

The CHAIRMAN: As soon as we get through this.

Mr. CANTLEY: Would you be good enough to give us some idea of the number of boats which have been sold from the fleet up to date?

Sir HENRY THORNTON: I can give Colonel Cantley any information he wants; but I think it would be better if he would reserve all those questions for the present.

Mr. CANTLEY: I am suggesting that you give me the information so that we can have it when we come to discuss the accounts. The number of boats sold up to date, the tonnage and the price, and so on.

The CHAIRMAN: Item 758.

Mr. COOPER (Reading):

CURRENT LIABILITIES

Account 758—Loans and Bills Payable.

759—Traffic and car service Balances Payable.

760—Audited Accounts and wages Payable.

761—Miscellaneous Accounts Payable.

762—Interest Matured Unpaid.

764—Funded Debt Matured Unpaid.

766—Unmatured Interest Accrued.

767—Unmatured Rents Accrued.

768—Other Current Liabilities.

Mr. JELLIFF: Under the item of Current Liabilities, I notice a considerable increase in the total of those items, as compared with those for last year. Would Mr. Cooper give us an explanation of that?

Mr. COOPER: The big increase is the forty-three and one-half million dollars of borrowings from the bank.

DEFERRED LIABILITIES

Account 769—Liability for Provident Funds.

770—Other Deferred Liabilities.

UNADJUSTED CREDITS

Account 771—Tax Liability.

773—Insurance and Casualty Reserves.

775—Accrued Depreciation—Road.

776—Accrued Depreciation—Equipment.

777—Accrued Depreciation—Miscellaneous physical property.

778—Other Unadjusted Credits.

779—Additions to Property through Income and Surplus.

780—Funded Debt Retired through Income and Surplus.

781—Sinking Fund Reserves.

783—Appropriated Surplus.

784—Profit and Loss Balance—Deficit.

The CHAIRMAN: That is all for to-day. We will adjourn until Tuesday at 11 o'clock.

Committee adjourned until Tuesday next, April 30th, 1929, at 11 a.m.

SESSION 1929
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6—TUESDAY, 30th APRIL, 1929

WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.
Mr. T. H. Cooper, General Auditor, Canadian National Railways.
Mr. R. A. C. Henry, Deputy Minister, Department of Railways and Canals.
Mr. D. C. Grant, Vice-President, Finance Department, Canadian National Railways.

MINUTES OF PROCEEDINGS

ROOM 497, HOUSE OF COMMONS,

TUESDAY, April 30, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

Members present: Messrs. Cantley, Dunning, Geary, Gray, Hanson, Jeliff, Jenkins, McLean (*Melfort*), Milne, Power, Stevens.

In attendance: Sir Henry Thornton, President, Canadian National Railways, with members of his staff; also Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

Sir Henry Thornton supplied answers to several questions asked at the previous meeting.

ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

The Committee considered the Profit and Loss Account, 1928, as contained on page 16 of the Report.

The Committee considered the Income Statement, as contained on page 17 of the Report.

At 12.50 p.m., the Committee adjourned until to-morrow, 1st May, at 11 a.m.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

COMMITTEE ROOM 497,
HOUSE OF COMMONS,
TUESDAY, April 30, 1929.

The Select Standing Committee on Railways and Shipping met at 11 o'clock a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: Let us proceed, gentlemen.

Hon. Mr. STEVENS: I should like to make a slight correction. On page 122 there are three questions against which the name of Mr. Geary appears, which were asked by me. I will cite the questions and the corrections can be made.

"Mr. GEARY: " —it should be "Mr. STEVENS: Including the \$5,000,-000 which Sir Henry mentioned a few moments ago?"

"Mr. COOPER: No."

"Mr. GEARY: " —it should be "Mr. STEVENS: Will you give us the total amount under the receivers' certificates?"

"Mr. COOPER: I think it is about \$5,000,000."

"Mr. GEARY: " —it should be "Mr. STEVENS: I want our total obligation."

"Mr. COOPER: It will be about \$38,000,000."

The CHAIRMAN: I understand you have some corrections to make, Sir Henry.

Sir HENRY THORNTON: I would like to make one or two corrections. At the last meeting of the Committee I gave details of our financial requirements. The amount given against item 7, "New branch lines," was given as "\$500,000." This should have been \$1,500,000.

There was also some question as to whether the year's expenditures on the Montreal terminal scheme were included. The figures quoted did not include the Montreal terminal expenditures.

Colonel Geary asked this question: How much of the total appropriation for 1929, roughly \$141,000,000, was for refunding? The answer is \$57,000,000.

Colonel Cantley asked for a statement of a list of ships sold, the dead weight tonnage, and the sale price since, I should say, within the last six years. I have the list here. Will it be sufficient to hand it in?

The CHAIRMAN: Could this not be filed when we are considering the Merchant Marine?

Mr. CANTLEY: Yes, but I would like to have it now.

Hon. Mr. DUNNING: I would suggest that it be placed in the record in connection with our discussion on the Merchant Marine.

Mr. GEARY: How do you generally quote ship's tonnage—by dead weight?

Sir HENRY THORNTON: Dead weight.

The CHAIRMAN: At the last meeting we finished the balance sheets. Unless Mr. Stevens has some further questions, we will go on.

Mr. GEARY: There was a question I asked which I think Mr. Henry was to answer for me.

Mr. HENRY: As to the relationship between the public accounts and the balance sheets?

Mr. GEARY: No; it was a statement in order to get at the writing down of assets and thereby adding to the national debt, over a period of years.

Mr. HENRY: In schedule B of the public accounts of 1928.

The CHAIRMAN: Shall we read that into the record?

Mr. GEARY: No; that does not quite give it. There are railroad advances which are not in the public accounts?

Mr. HENRY: Then I did not understand your question. You wanted to know the amount included in the balance sheets?

Mr. GEARY: Mr. Gray and I were a little concerned about this item of the Dominion of Canada account, funded debt unmatured and loans. Then there is interest and appropriation. Leave the interest out, because that is a matter year by year. The \$581,000,000 plus the \$417,000,000 represent an amount which has been advanced in one way or another by the Dominion of Canada and then written down to non-active assets and thus the public debt increased.

Mr. HENRY: I misunderstood your question.

Hon. Mr. DUNNING: It would really affect it in this way—what you want is the proportion of the \$1,290,000,000 which is non-active, and when it became non-active.

Mr. GEARY: Yes sir. That is right. I think a simple way would be to give me each year's amounts and a notation as to whether it was written down as non-active.

Hon. Mr. DUNNING: If we say when they became non-active it would deal with both phases of it, because it was added to in each year.

Hon. Mr. STEVENS: A lot of that was paid out of the consolidated funds.

Mr. GEARY: A great deal of it was originally, of course.

Hon. Mr. STEVENS: Annually, by an appropriation of parliament. I presume that \$417,000,000 was all paid out of the consolidated fund.

Mr. HENRY: It was, but whether it appeared in the public debt at any time, I do not know.

Hon. Mr. DUNNING: You will have to take that up with the Finance Department.

Mr. GEARY: As Mr. Stevens has said, a great part of that was carried year by year—\$30,000,000 in one year, \$25,000,000 in another year, and so on.

Mr. HENRY: I doubt whether that can be done without going back into each year, because you cannot tell whether it was in any individual year or not.

Mr. GEARY: I do want that, because I cannot get it in the public accounts.

The CHAIRMAN: Are there any other questions on the balance sheet? If not, we will go to the index, profit and loss, page 16.

Mr. GEARY: I think we did not finish with the credit side of the balance sheet.

The CHAIRMAN: Yes, we finished the whole thing.

Mr. GEARY: Did we get the depreciation on road equipment?

The CHAIRMAN: Yes, we went through that, but if there are any further questions we can go back to it. Both you and Mr. Stevens were absent when we finished.

Mr. GEARY: That is something you credit to the American roads?

Sir HENRY THORNTON: Yes, that is what it is.

Mr. COOPER: The first item is Debit balance brought forward from the previous year. The next item is Debit balance transferred from income account

as shown on page 17. The next item is Surplus applied to sinking and other reserve funds; the next is surplus appropriated for investments in physical property; the next is Miscellaneous appropriations of surplus; Account 619 is loss on retired road and equipment. Item 620 Delayed income debits.

Mr. HANSON: Please explain what 619 and 622 mean.

Mr. COOPER: 619 is the loss when property is retired from service and not replaced. If we abandon a piece of property we would have to adjust the property account by writing out the ledger value, and if the property is not replaced the loss is a charge to surplus and not to operating expenses.

Hon. Mr. STEVENS: And the adjustment of the land surplus account is referred to on page 9 of the President's report?

Mr. COOPER: The major adjustment creating that charge of \$6,500,000 was in connection with certain land grants which the Canadian Northern Company considered it was entitled to receive from the provinces of Ontario and Quebec. Our balance sheets formerly carried a foot note that the title to these lands was questioned by the Ontario and Quebec governments. As I understand it, when the government took control of the Canadian Northern, the provinces claimed that these land grants should not be included, and we have been carrying them as assets. On the advice of our legal department in 1928 we wrote them off in view of the fact that we were told we could not expect to receive them—could not expect to receive the patents for the land grants.

Mr. GEARY: So you have given up any claim?

Sir HENRY THORNTON: We have not given up any claim, but for accounting purposes we have written them off.

Mr. GEARY: You are not carrying them anywhere?

Mr. COOPER: No.

Mr. HANSON: The effect is a practical release of the provinces from all liability of every character?

Sir HENRY THORNTON: I would not go that far. That is a question upon which I would not want to make any admission excepting upon advice of counsel.

Mr. HANSON: In working it out, it seems to me the provinces are being released from everything step by step, and year by year.

Mr. HENRY: The lands had not been chosen, and the provinces were testing the right of the National railway to get them.

Mr. GEARY: I think you could call it a wash-out.

Hon. Mr. DUNNING: I am not calling it any names at all.

Mr. COOPER: Account 603 "Profit on road and equipment sold", account 605, "Unrefundable overcharges", account 606, "Donations".

Mr. GRAY: What is that? Is that the Christmas tree to which Sir Henry referred?

Mr. COOPER: When a siding is constructed for an industry the usual practice is for the trader to advance the perishable cost, such as labour, ties, grading and things of that nature. The railway company furnishes the non-perishable material, such as steel, rails and fastenings, on a rental basis. Where a portion of the siding is constructed within the company's right of way, the company claims ownership in that siding although a portion of the cost had been advanced by the trader. Therefore, we make an entry charging the entire value to our investment account, and we credit the amount of that investment contributed by the trader to the Profit and Loss account as a donation.

Hon. Mr. DUNNING: A donation to the company?

Mr. COOPER: Yes.

Mr. GEARY: You get certain revenues which go against the trader's liability?

Mr. HANSON: You get more than that; you get the annual rental from the industry.

Mr. COOPER: We get the rent for the use of our rails and fastenings.

The CHAIRMAN: And also the land, when it is used.

Mr. COOPER: We do not charge the trader rent for the land.

Mr. HENRY: Six per cent of the value of the material which the company supplies.

Mr. GEARY: They charge for moving cars over that siding.

Mr. COOPER: There would be a regular switching charge.

Mr. GEARY: They are in your agreement.

Mr. COOPER: I think what you probably have in mind is that where the trader would advance the cost of the siding, it would be refunded to him on a car basis.

Mr. GEARY: That is not the sort of thing to which you are referring?

Mr. COOPER: No. This is where the cost is paid by the trader, and he has no recourse against that. The purpose is to put it into the investment account so that the investment account will include everything we have.

Mr. HANSON: He does not get it back?

Mr. COOPER: No.

Mr. CANTLEY: Would it not be better to describe it as a contribution?

Mr. COOPER: We use the regular forms of income and profit and loss contained in the Inter-State Commerce Commission regulations. "Contributions" is all right, but the classification says "Donations," so we use the word "Donations".

Mr. HANSON: In the event of the industry falling down, you make an adjustment.

Mr. COOPER: If the siding were taken up we would have to write it out of the property account.

Mr. GEARY: If a man chooses to spend money in that way, he cannot get it back?

Mr. COOPER: No. Account 607 "Miscellaneous Credits and Debits net."

Mr. HANSON: What is that?

(After a statement by Mr. Cooper.)

Hon. Mr. STEVENS: Put it in the record simply that a portion of this is an adjustment of certain securities bought out of sinking fund.

Mr. COOPER: We have a credit of \$2,092,000 from the writing up of the stock of the Detroit and Toledo Shore Line. We have \$714,000 par value; we were carrying it in our accounts at \$50,000, and we wrote it up to three times par value.

Hon. Mr. STEVENS: Why?

Sir HENRY THORNTON: Because the proprietors of the railway which is jointly owned by ourselves and some other railways decided that the earning value of the property justified writing it up to that amount.

Mr. HENRY: It was approved by the Inter-State Commerce Commission?

Mr. COOPER: Yes; it was really done to make our balance sheet position now before the Commission of the Grand Trunk Western Consolidation properly reflect the situation. \$2,092,000 is the Shore Line stock.

Mr. GEARY: Any other items in that?

Mr. COOPER: Another item is \$387,000 which was the capital stock of the Toledo Terminal Railway Company.

Hon. Mr. STEVENS: The same thing?

Mr. COOPER: Yes. We have another item of \$227,000, and then an item of \$625,000 which was the amount carried in accounts 779 and 780 on the balance sheet, and which we moved down to account 784. This also was done in connection with the presentation of our Grand Trunk Western situation before the Commission. The purpose was to prepare a balance sheet which would properly show the situation to-day, and the things which we did were done with the approval of the accounting officials of the Commission.

Mr. GEARY: That would be a charge in this particular account?

Mr. COOPER: No, these are credits.

Mr. GEARY: That means a writing up of that item.

Mr. COOPER: In respect to the Shore Line stock and the Toledo Terminal stock it would involve the writing up of account 706, and the corresponding credit to account 784. In respect to the other items it meant the transfers from accounts 779 and 780 to account 784.

Mr. GEARY: It is a credit then to the Profit and Loss account.

Mr. COOPER: Why certainly it is.

Mr. GEARY: And a charge to the other two?

Mr. COOPER: Yes, you can describe it that way. To put it accurately, it is a transfer to Free Surplus of surplus which had been appropriated for investment in physical property and for debt redemption.

Mr. GEARY: I think I have it in my own way.

Sir HENRY THORNTON: You describe it accurately, and Mr. Cooper describes it technically.

Hon. Mr. STEVENS: It only brings forward the necessity of carrying out what Sir Henry mentioned the other day that he had in his mind and had been working on, namely, the revaluation of the whole financial structure. In other words, this main item of \$278,000,000 in this case has been written up, whereas we know there is contained in that some items which should be written down, and it is rather desirable that that adjustment should be made as early as possible. I was hoping we might have had something from Sir Henry this year.

Sir HENRY THORNTON: That statement will excite nothing but applause from this side of the table.

Mr. GEARY: We can divide the applause amongst different items.

Sir HENRY THORNTON: Then we will have a continuous symphony.

Mr. GEARY: I hope it will not be a discord. Roughly speaking, how is that made up, Mr. Cooper?

Mr. COOPER: The \$472,000,000?

Mr. GEARY: Is it the general government advance?

Mr. COOPER: \$278,000,000 of that is interest accrued in favour of the government.

Mr. GEARY: That is on the credit side of your balance sheets?

Mr. COOPER: Yes, and the balance is the excess of fixed charges over operating income over a period of years for all the companies. It is the accumulated deficit of the Canadian Northern, the accumulated deficit of the Grand Trunk, the Grand Trunk Pacific and all subsidiary companies, and the results of the Canadian Government Railways from the date they were transferred to the Canadian National for management and operation.

Mr. GEARY: You have it as from the time you took over?

Mr. COOPER: Yes. The books constitute a proper historical record of continuous operation.

Sir HENRY THORNTON: We took those as we found them.

Mr. COOPER: Mr. Matthews was speaking of the position of Touche & Company as auditors, but we are the successors of these corporations and we simply continued their records. We did not commence a new set of books.

Mr. GEARY: You accepted them as stated by the company as of January 1, 1923? You did not change those previous figures?

Mr. COOPER: No.

Hon. Mr. DUNNING: We are still those companies.

Mr. GEARY: I was wondering if you had gone into the bookkeeping before that.

Hon. Mr. DUNNING: The date the present organization took control from the original private owners goes back to 1919, but there has been a continuous company record.

Mr. GEARY: Which you have controlled since that time.

Sir HENRY THORNTON: I think Colonel Geary is right there.

Mr. GEARY: You do not admit the correctness nor have you anything to do with the correctness of the books as you found them?

Mr. COOPER: No. I think it is a correct statement. Neither in the investment in property accounts nor in the corporate surplus account could we certify as to their correctness.

Mr. McLEAN (*Melfort*): Does that include deficits accumulated on the old roads?

Mr. COOPER: It includes the accumulated deficits of those companies right back to their inception.

Hon. Mr. STEVENS: With the exception of the I.C.R.

Mr. COOPER: Yes.

Hon. Mr. DUNNING: The companies are still here. We are merely managing them now instead of the people who formerly managed them.

Mr. GEARY: That will come in in the reconstruction?

Hon. Mr. DUNNING: Yes, it is a big part of the problem.

Sir HENRY THORNTON: The big part of the problem in developing our new proposed financial structure was the investigation of this very thing, and the finding out what the actual financial positions of those constituent companies were.

Hon. Mr. STEVENS: Mr. Chairman, the Minister (Hon. Mr. Dunning) mentioned the other day that he felt we should not discuss this question of financial reconstruction because of the action of certain old Grand Trunk shareholders. Naturally I do not want to embarrass the Minister, but would that seriously interfere with proceeding with the matter?

(After a statement by Hon. Mr. Dunning.)

Hon. Mr. DUNNING: Owing to certain pending litigation it is inadvisable to discuss the question at this time.

The CHAIRMAN: We have already discussed items 501 and 531 in the analysis for the operating expenses. We might go on from there.

Mr. COOPER: Account 532 "Railway tax accruals".

Hon. Mr. STEVENS: What are those, briefly,—in general terms?

Mr. COOPER: Provincial, municipal and state taxes.

Hon. Mr. STEVENS: On real estate, and so forth?

Mr. COOPER: On the physical property of the company.

Mr. GEARY: Accrued, but not due.

Mr. COOPER: Some are paid, and some are accrued. In Canada, most of the taxes are paid; in the States they are accrued. That is a charge to the 1928 income account—the liabilities for unpaid taxes you will find in item 771 on page 15.

Hon. Mr. STEVENS: Why do you use the word “accruals” there instead of the bald statement “railway taxes”? It implies that it is an adjustment, as you adjust interest not yet due. These are paid, are they not?

Mr. COOPER: I will put it this way: the total charge to income during the year was \$4,998,000, of which \$1,772,000 had not been paid at December 31st.

Mr. GEARY: It is railway taxes paid and accrued.

Mr. COOPER: Yes. The entire income account is on the accrual basis, not on a cash basis.

Mr. HANSON: And covers the total liabilities for the period.

Mr. COOPER: The earning and expenses for the year.

Mr. McLEAN (*Melfort*): When are those taxes payable?

Mr. COOPER: This item of \$1,772,000 is chiefly in the States; it becomes payable around the first of May.

Mr. GEARY: This is the appropriation up to December 31st?

Mr. COOPER: It is the appropriation of taxes chargeable to the 1928 income account.

Mr. GEARY: You do not compute that on a per diem basis, but take the whole sum as assessed and levied on you.

Mr. COOPER: We estimate what our taxes will be and charge it to income month by month. At the end of the year we find out what our unpaid taxes are, and we adjust the income account to that basis.

Mr. HANSON: There has been an agitation in some municipalities in the maritime provinces with respect to this. The railway has not changed its policy with respect to that?

Sir HENRY THORNTON: No.

Mr. COOPER: Account 533 “Uncollectible Railway Revenues”; “Railway Operating Income”; account 502 “Revenues from Miscellaneous Operations”; account 534 “Expenses of Miscellaneous Operations”; and account 535 “Taxes on Miscellaneous Operating Property”. “Miscellaneous Operating Deficit”. “Total Operating Income”. Account 504 “Rent from Locomotives”; account 505 “Rent from Passenger Train Cars”; account 506 “Rent from Floating Equipment”; account 507 “Rent from Work Equipment”.

Hon. Mr. STEVENS: Do not let us go too fast.

Mr. HANSON: Or we will be out of a job.

Hon. Mr. STEVENS: Not only that, but it will mystify some of us fold here.

Hon. Mr. DUNNING: Impossible.

Mr. COOPER: 502 are the revenues from our different hotels; 534 the expenses, and 535 the taxes against the hotel properties.

Mr. HANSON: This shows the deficits in italics.

Mr. COOPER: \$133,545.89 is loss, and the principal reason for that loss is the charge to the Chateau Laurier operations of some \$200,000 in connection with the cost of alterations.

Mr. HANSON: Does that take into account interest on capital invested in hotels?

Sir HENRY THORNTON: No.

Mr. HANSON: Just simply operations.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: Is it in order to ask what the extensions to the Chateau will cost to date?

Sir HENRY THORNTON: I cannot give that offhand.

Hon. Mr. STEVENS: Could we have that to-morrow, together with the total cost of finishing, including furnishings.

Mr. McLEAN (Melfort): Mr. Cooper, would you explain the \$200,000 charged to the Chateau for alterations, before we can use it?

Mr. COOPER: Yes. The architects were asked to make an estimate of the proportion of the gross expenditures which would be chargeable to operation, as representing property retired, in connection with the alterations, and the cost of moving furnishings and equipment and things of that sort from one place to another. They gave us an estimate of \$600,000, and they told us that \$200,000 of that had been incurred up to December 31st, so we charged against the hotel operations \$200,000.

Mr. McLEAN (Melfort): None of that is charged to new capital cost?

Mr. COOPER: No. Of the cost of the alterations of the Chateau we expect to absorb \$600,000 in our operating account.

Mr. McLEAN (Melfort): If it had not been for that, you would have shown a profit?

Mr. COOPER: Apart from that we would have had a profit of \$67,000, as compared with a loss of \$12,000 in 1927.

Sir HENRY THORNTON: We will give you that statement to-morrow.

Hon. Mr. STEVENS: Give the number of additional revenue rooms also.

The CHAIRMAN: Items 504, 505, 506 and 507. Item 508 "Joint facility rent income".

Mr. HANSON: What is that item for?

Mr. COOPER: That is the rent we receive from other carriers which participate with us in the joint use of properties such as, for instance, the Ottawa terminal.

Mr. HENRY: For which the National has invested the capital.

Mr. COOPER: Account 509 "Income from Lease of Road"; account 510 "Miscellaneous Rent Income"; account 511 "Miscellaneous Non-operating Physical Property"; account 512 "Separately Operated Properties—Profit"; account 513 "Dividend Income"; account 514 "Income from Funded Securities"; account 515 "Income from Unfunded Securities and Accounts".

Of this latter \$607,000 is interest on bank balances; \$426,000 is interest during construction on capital expenditures—those are the two principal items in the account.

Item 516 "Income from Sinking and other Reserve Funds"; 519 "Miscellaneous Income"; 536 "Hire of Freight Cars—Debit Balance".

Hon. Mr. STEVENS: Give us a brief general description of that item.

Mr. COOPER: That is the per diem we paid foreign lines for their cars used on the Canadian National system in excess of Canadian National system cars on foreign lines. In 1928 we had an increase of 3,293,000,000 net ton miles. In 1927 we handled 466 net ton miles per car days, and theoretically would have required 7,066,000 car days to handle the additional tonnage of 1928. This at a per diem of \$1 per car per day would have increased the adverse per diem balance by \$7,066,000. Economies were effected by improved transportation methods resulting in heavier loadings and quicker movements; the

average car loading was increased from 24·80 to 25·32 tons, and the average miles per car day increased from 28·8 to 30·5. The result has been to increase the net ton miles per car day from 466 to 510, and we calculated with that reduced theoretical adverse per diem balance we could have exceeded by \$4,693,000—

Hon. Mr. STEVENS: In other words, while it increased \$2,200,000 it might have on that theoretical basis increased \$7,000,000.

Sir HENRY THORNTON: Had the transportation performance not been improved that would have been the case.

Hon. Mr. STEVENS: Coming back to what I asked you the other day, it does seem like a striking increase in the use of foreign cars.

Sir HENRY THORNTON: No doubt about that.

Hon. Mr. STEVENS: The point which agitates my mind is this; I recall very well about 1919 or 1920 there were very strenuous efforts made by United States companies to get back their cars owing to the shortage which accrued on their own roads. Assuming that such an event occurred again would not the National railway find itself very seriously handicapped by the withdrawal of those cars?

Sir HENRY THORNTON: Undoubtedly, Mr. Stevens. If we were unable to rely upon foreign lines for the use of equipment, such as we did last year, we would find ourselves seriously embarrassed. On the other hand we feel that the risk is not sufficient to justify equipping the railway with sufficient cars to take care of the seasonal movement, having regard for the fact that a very large proportion of those cars would be idle the rest of the year. It is entirely a matter of judgment.

Mr. GEARY: You do not build up to your peak?

Sir HENRY THORNTON: No, and I do not believe any industry is really justified in taking care of the seasonal and periodical peak conditions in their business.

Mr. HENRY: I might add to what Sir Henry has said by saying that the peak conditions in Canada do not synchronize with those in the United States, and therefore there is an opportunity of using the cars. The circumstance to which Mr. Stevens referred related to a condition following the close of the war when there was a shortage of equipment all over. That has been largely cured in the United States; they have all the necessary equipment now.

Sir HENRY THORNTON: And it is only fair to remember also that the demand for equipment resulted from an extraordinarily big crop last year, which was somewhat exceptional.

Hon. Mr. STEVENS: Let me put it this way: to capitalize the \$2,200,000, which was the increase over last year in this form of service, would give you \$40,000,000 at 5 per cent.

Hon. Mr. DUNNING: But you have to pay interest on it every year.

Hon. Mr. STEVENS: That would give you 14,000 new cars.

Mr. HENRY: I do not think your figures are quite right. You are figuring \$1 a day.

Hon. Mr. STEVENS: No, I am taking what you paid out in excess this year over last year, \$2,200,000. If you capitalize that, it will give you more than \$40,000,000 at 5 per cent.

Mr. HENRY: That is on the basis of \$1 a day. The fact is that the whole of the dollar is not represented by capital; I think it is about 60 cents.

Hon. Mr. STEVENS: You paid out that amount. I do not care what you paid per diem; you paid \$2,200,000 in excess of what was paid last year for that service.

Mr. HENRY: You are wrong in the conclusion that you would have to have \$40,000,000 worth of equipment to offset that.

Hon. Mr. STEVENS: It would provide for that, but you could capitalize it, and if you take that capital you could provide the very best modern freight cars—about 15,000 or 16,000 of them.

Sir HENRY THORNTON: Mr. Stevens means that instead of paying that excess per diem the thing to do is to pay it as interest on equipment purchases, as far as it will go.

Hon. Mr. STEVENS: The point at issue is whether or not that is an extravagant way of doing business. If you will permit me to digress for a moment, what is your total number of freight cars?

Mr. HENRY: About 118,000 or 119,000.

Hon. Mr. STEVENS: You could add, say, 5,000 and probably save a great deal of money in that way.

Mr. GEARY: You would have to charge a depreciation on the cars.

Sir HENRY THORNTON: That includes certain charges on the liability side as well. We are strengthening our equipment in quality and character as well as numbers year by year. It has to be done with caution and with prudence and with reasonable regard for the company's general financial position. The real answer to your question is that in the opinion of the operating officers and myself we consider, having had regard for all the circumstances, that this is the prudent thing to do. There may be a difference of opinion, but this is what we think is a prudent thing to do.

Hon. Mr. STEVENS: In order to get these figures quite clear on the record, what is the gross total amount paid out for the hire of freight cars last year. This (indicating) gives you a debit balance of \$5,800,000. That represents the amount in excess you paid out over what you received for the hire of your cars from other roads. That is correct?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: It means that an enormous number of foreign cars are being used?

Mr. FAIRWEATHER: Approximately \$13,000,000 paid out, and approximately \$7,500,000 received. These figures will not agree with the income account, because the income account, as Mr. Cooper has said, is on the accrual basis, and these happen to be on the monthly basis.

Hon. Mr. STEVENS: They are very close. Your difference is \$6,000,000 and this is \$5,800,000, so to all intents and purposes it is the same.

Hon. Mr. DUNNING: That means that other railroads paid us when we had cars to spare within a measureable distance of what we paid them.

Hon. Mr. STEVENS: No, that is not the point I am making. You paid out \$13,000,000 and received \$7,500,000.

Hon. Mr. DUNNING: The point I am making is that there must have been a period during the year when we could let them have a large number of our cars.

Mr. HANSON: That is a constant factor. They are using some of your cars all the time, but then the actual cash is \$5,000,000, and the \$2,000,000 accruing makes approximately \$7,000,000.

Sir HENRY THORNTON: We figure that it costs us 95 cents a day to own a car, and \$1 a day to rent one.

Mr. HANSON: Are they as close as that?

Mr. McLEAN (Melfort): The information I should have in order to judge of this would be as to the number of days during which you paid rental for any

cars. For instance, if you had 100,000 cars—or any number—for a few days it would not pay to build them, but if you had them in use over a period of six months, it probably would.

Sir HENRY THORNTON: You have opened quite a technical transportation question. It is not an easy thing unless you have lived in the atmosphere of railroading to understand just what this per diem means. All I can say is that the technical officers and myself who have studied the question believe, having regard to all the circumstances, that we are doing the prudent thing. There is no doubt about it but what as the years go by we will build up our equipment both in the number of cars and their character, but all those things cannot be done in a year, or in a few years. It has to be a general upbuilding.

Hon. Mr. STEVENS: What do you include in the 95 cents?

Mr. COOPER: Maintenance, 39 cents; replacement 15 cents; taxes, 4 cents; interest $23\frac{1}{2}$ cents, and other allowances, 12 cents.

Hon. Mr. STEVENS: Forty-three cents of that amount you would have to pay on your hired cars, because you have to keep them in repair and pay the taxes, so it would not be 95 cents as against \$1, because your \$1 is increased by the maintenance of the car.

Mr. COOPER: The cost of maintaining a hired car is charged back to the owner.

Hon. Mr. STEVENS: Do you mean to say that you do not oil the cars, and so forth?

Mr. COOPER: Running repairs, yes, but they are a very small proportion of the maintenance of the car. The main repair cost of a hired car is charged back to the owner, because the \$1 which he receives compensates him for that.

Hon. Mr. STEVENS: I can understand it for what we may call major operations only, but in the daily running expenses it would be—

Mr. COOPER: No; I was told at one time that repairs would be divided 95 per cent owner's defects and 5 per cent running repairs.

Mr. HANSON: Is it the invariable custom that all repairs are paid by the owners? Consider a case on the Transcontinental where they had a wreck near McGillivray Junction within the last six months where there were a number of foreign cars damaged, and the damage must have amounted to thousands of dollars.

Mr. COOPER: If we wreck a foreign line car, of course we have to pay for it. The \$1 includes repairs, replacements, taxes, interest, and one or two other elements.

Mr. McLEAN (Melfort): It might clear the matter to a certain extent if we could get the number and classes of cars required for a short period—for a seasonal rush.

Sir HENRY THORNTON: We can get that for you.

Mr. GEARY: Have you a demand for cars by foreign roads which at times you cannot supply? Have you not had more times when you could not be sure of renting them?

Sir HENRY THORNTON: It depends entirely on circumstances.

Mr. HENRY: Probably I can explain what you have in mind. In Canada the peak occurs from about the 15th of September until the 15th of December, and at that time we require about 25 per cent more cars than the average, but only for that period. Now, if we would invest in the total number of cars required to take care of that maximum peak, we would have to find other work for them to do some place else, and probably we could not find it.

Hon. Mr. STEVENS: I would not like to let the Committee have the impression that I am not aware of all that, but I am calling attention to the fact

that this year we have \$2,200,000 above what it was last year, and I am looking for the justification of that excess. I quite understand that you have a peak season and must get extra rolling stock and it is good to get foreign rolling stock for that period. I rather imagine the American roads are at times looking for quite a bit of extra stock for the same purpose.

Sir HENRY THORNTON: They are very glad to let us have cars when they cannot use them themselves.

Mr. HANSON: The net amount paid is a huge sum—\$5,500,000 actually paid.

Sir HENRY THORNTON: Of course, a great deal of this depends on the balance of international traffic. We get a very large number of American cars which come to us loaded, and we try to send them back loaded. It would be foolish to send them back empty if we could load them.

Hon. Mr. STEVENS: You hang on to them until they are loaded?

Sir HENRY THORNTON: Every road does.

Mr. McLEAN (Melfort): What part of this \$2,200,000 is due to the number of American cars loaded, upon which rental has been paid until they could be sent back loaded.

Sir HENRY THORNTON: Undoubtedly a good portion.

Mr. HENRY: A great portion of the Grand Trunk Western cars come back empty.

Mr. GEARY: How do you keep track of a freight car? It is like looking for a needle in a haystack.

Mr. HENRY: They have a record of every car.

Mr. GEARY: One of your cars may be in Texas.

Mr. HENRY: Absolutely.

Sir HENRY THORNTON: I saw one in Mexico.

Mr. GEARY: You won't get that back; it is probably armoured by now. Do not these cars ever get lost?

Mr. HENRY: There is another instance I might mention. This per diem includes the rental for private cars as well, and even with everything else taken into account, you would still have over \$2,000,000 of an adverse per diem balance by virtue of that one thing alone.

Mr. HANSON: I thought you had a whole battery of private cars.

Mr. HENRY: I mean private freight cars such as special refrigerator cars which come through on a margin basis.

Mr. CANTLEY: If you had abundant traffic, would you not get more cars?

Sir HENRY THORNTON: What do you mean by "abundant traffic"? With all due respect to you, Colonel Cantley, that phrase is a little loose.

Mr. CANTLEY: If you had ample capital—

Sir HENRY THORNTON: I do not think that would materially change our policy. Why spend your own money when you can use somebody else's?

Hon. Mr. DUNNING: One of the criticisms against public ownership in Europe is that institutions which are able to go to a taxing body for the purpose of raising money have a tendency to overequip, as being the easiest thing for the management to do. I have had to go into this thing with respect to further equipment loans, and I think this whole discussion is rather a compliment to the management. Naturally I take their view of it as we examine it from time to time, and I rather think they give every indication of watching closely from the point of view of the economics of this particular system, having regard to the fact that they can come to the government to get money.

Sir HENRY THORNTON: Consider a road like the Pennsylvania. Its gross earnings are \$600,000,000 a year and its net earnings are over \$100,000,000. There is a railway with very ample funds, and with a very large margin between their financial requirements and their available funds. Such a railway would undoubtedly be more liberal in the purchase of equipment, and would not be under the same necessity of watching every penny as are we, and would probably have, even if you took into regard the traffic requirements, more cars per mile than we have. It all comes down to the consideration of the circumstances which confront you, coupled with technical knowledge and business prudence, and there is no formula which will tell you precisely what to do. It has got to be the exercise of judgment on the part of those who are supposed to know something about the business, and that is about all one can say of it.

Mr. CANTLEY: You have a considerable number of wooden cars which are out of date. Some of them I feel very strongly are a menace to the operation of the road. I take it that if you had ample credit or ample funds you would put them out of service faster than you are doing and replace them with modern equipment.

Sir HENRY THORNTON: Affluence is no excuse for extravagance, and if we were affluent I would still proceed with the same prudence, and I hope judgment upon which we are proceeding now.

Mr. CANTLEY: I hope you would proceed a little faster.

Sir HENRY THORNTON: We might. I instanced the case of the Pennsylvania railroad with ample funds: they could be more liberal than we are justified in being.

Mr. GEARY: They would scrap them quicker?

Sir HENRY THORNTON: Probably.

Mr. GEARY: I do not want to belittle Colonel Cantley, but have you any cars which are a menace to operation?

Sir HENRY THORNTON: I think that is too forceful a way of expressing it.

Mr. CANTLEY: You have wooden cars fifteen years old and more which should be put out of service.

Sir HENRY THORNTON: Some of them are doing very good service. If Colonel Cantley makes the statement that any portion of our equipment is a menace to the railway, I would say that it is not.

Mr. CANTLEY: It is my opinion that there is equipment which should be retired.

Sir HENRY THORNTON: That may be, but it is not mine. There are a lot of things on this railroad I should dearly love to do which involve the expenditure of money. There is nothing a railroad officer likes to see more than a fine rock-ballasted railway, with one hundred and thirty pound rails, automatic signals, the best locomotives, and the best cars. It is a delight to look at that sort of thing, but we have to consider other things as well.

Mr. GEARY: Are you running cars which are economically wasteful which you would like to replace, from a dollars and cents standpoint? That is until you get your equipment?

Mr. COOPER: Yes.

Mr. GEARY: The last few years in the life of a car probably costing altogether too much?

Sir HENRY THORNTON: Oh, yes.

The CHAIRMAN: Number 537.

Mr. COOPER: 537, Rent for Locomotives; 538, Rent for Passenger Train Cars; 539, Rent for floating equipment; 540, Rent for work equipment; 541, Joint facility rents; 542, Rent for leased roads; 543, Miscellaneous rents.

Mr. GEARY: You lease roads or running rights to the Canadian Pacific Railway, such as from Toronto to Hamilton?

Mr. COOPER: That is Joint facility rent income. That would be 508.

Mr. GEARY: This Joint facility rent?

Mr. COOPER: This is a debit account, where we pay rent to another.

Mr. GEARY: You are just about paying as much as you are receiving on that?

Hon. Mr. DUNNING: About \$25,000 less.

Mr. COOPER: 542, Rent for leased roads; 543, Miscellaneous rents; 544, Miscellaneous tax accruals; 545, Separately operated properties—Loss; 546, Interest on funded debt.

Hon. Mr. STEVENS: Just on that——

Mr. GEARY: The next is the important item.

Hon. Mr. STEVENS: On this item of funded debt, on pages 28 and 29 we have the funded debt set forth. I have not had the time to go through that and check it up very carefully, but could we have a statement, Sir Henry, to-morrow—I think it could be given to us very readily—of the securities that have been issued and sold, say, during the time since you took hold, and the amounts paid, refinanced or paid off—the maturing securities paid off and the new issues?

Sir HENRY THORNTON: What you really want, I take it, is the change in the capital position since 1923?

Hon. Mr. STEVENS: Yes, but shown in that way, the total amount issued, and the total amount paid off, leaving, of course, the increase which would show, say over the period of this balance sheet. That is 1923, is it not?

Hon. Mr. COOPER: Yes.

Hon. Mr. STEVENS: I notice there are some short issues which have been issued and paid off, and so on, and we might have that.

Sir HENRY THORNTON: You understand what Mr. Stevens wants?

Mr. COOPER: Yes, we will have that.

Sir HENRY THORNTON: Of course, when the various properties which now compose the Canadian National Railway system were consolidated under one central administration, we found ourselves confronted with a number of different properties, most of which had not been built for the purpose of creating one complete unit, but had been built without any regard one for the other, and generally for the purpose of competing one with the other. In some cases those properties were, from the physical point of view, incomplete; and in many other cases the facilities were badly arranged and insufficient, not in so far as those properties themselves were concerned, but in so far as each one had an effect upon a co-operative whole. Also there was this very question of equipment that we are discussing; I mean locomotives, box-cars, sleeping cars and equipment generally. Now the great problem that confronted us was to arrange to provide such facilities as would permit those discordant parts to operate as one, each part more or less in accord with the other. That involved necessarily very considerable additions to capital, as one can easily see. Take, for instance, this one question of rock ballast and heavier rail on our lines between Montreal and Chicago. We have been pursuing a consistent policy, an increasingly vigorous policy, to as rapidly as possible equip that part of the railway with stone ballast, automatic signals and heavier rail, a large part of which must necessarily go to capital.

I want the Committee to understand that when the various constituent parts which go to make up this system were handed to us they were discordant and had to be brought into co-ordination one with the other to become what I would describe as a unit.

There was a large number of wooden trestles which had to be taken up. Not only that, but in most of the cases they had outlived their usefulness and had deteriorated so that they had to be renewed, and also because heavier power had to be used.

I do not want this Committee to go away with the idea that when the system was handed over to us we were handed a complete railway. We were handed a very discordant number of parts, a railway which was insufficient in many ways in its railways and traffic. All that involved a good deal of money to put the railway into an efficient position. And the answer as to whether that was wise or not is found in the increasing net earnings, which have increased from \$3,000,000 for 1922 to over \$58,000,000 last year.

Mr. GEARY: A good deal of that had been done before you came.

Sir HENRY THORNTON: The work had commenced, and some of it had been done; and during the intervening six years we proceeded with it with greater vigour than those who preceded us had been able to pursue it. And then again the great advantage was that it was all under one administration, instead of two, as it was before.

Mr. GEARY: You also had to incorporate in one system some lines which were built to compete with each other?

Sir HENRY THORNTON: That was the great trouble. When these railways were built to compete one with the other, we found a duplication of facilities and, in other cases, facilities which were badly arranged for consolidating purposes. Unless a person really had lived with this, as I have lived with it and as the various officers of the company have lived with it for the past six years, I do not think anybody really will appreciate what an extremely difficult matter it was to unravel the whole thing and put it into such a shape that it will be in harmony instead of in discord.

Mr. GEARY: How many miles of track have you had to take up?

Sir HENRY THORNTON: We have had to take parts of one line and put it with another line, so as to get a minimum grade or an improvement in alignment.

Mr. GEARY: The Toronto and Eastern, was there not steel laid on that?

Sir HENRY THORNTON: Yes, we took up part of that.

Mr. GEARY: What became of that right of way?

Sir HENRY THORNTON: We still have got it.

Mr. GEARY: You cannot use it, I suppose?

Mr. COOPER: The Oshawa Street Railway is using part of it.

Sir HENRY THORNTON: The railways, as we took them over, were like an orchestra, with each instrument playing its own tune independently of the others; and we are trying to get harmony out of the whole.

Hon. M. STEVENS: You ought to be complimented upon the way in which you have got harmony out of your organization.

Sir HENRY THORNTON: If anyone is to be complimented it is the orchestra upon the way in which they have responded.

The CHAIRMAN: Item 546A.

Mr. COOPER: 546A, Interest on Dominion Government Advances.

Mr. GEARY: That is a little less.

Mr. COOPER: About \$9,000 odd, \$9,664.

Mr. GEARY: That does not remain constant?

Hon. Mr. STEVENS: In last year's statement there is a discrepancy in the figures. In the last year's statement, December 31, 1927, it shows \$32,190,648. In here for December 31, 1927, it shows \$31,891,966. How does that come?

Mr. COOPER: That is the published 1927 statement included in the Canadian National, six months of the Eastern Lines, whereas we take out, for comparative purposes in 1928 the Eastern Lines for the full twelve months. And that answers Colonel Geary's question, that the interest charged on the Eastern Lines was \$625,000 in 1928 as compared with \$613,000 for 1927.

Mr. GEARY: That is \$12,000 as against \$7,000,—that does not quite explain it. If you will tell me that to-morrow.

Mr. HANSON: There is a very substantial increase on your floating debt, Sir Henry?

Mr. COOPER: Interest on unfunded debt. That is interest on temporary loans from the Dominion Government, \$835,000; interest on temporary loans from the Dominion Government on account of the Central Vermont, \$227,000; discount on notes issued to various banks securing temporary loans, \$306,000; interest paid to the Dillon, Reed Company, in connection with the financing they did of Central Vermont bonds, \$110,000.

Mr. HANSON: That does not include, then, any interest on the monies you borrowed from the bank?

Mr. COOPER: It includes it as discount. The notes were discounted and we charged up \$306,000 on the 1928 accounts.

Mr. HANSON: By the way, that temporary financing with the banks, was that authorized by Parliament? Part of it was for capital expenditure, instead of selling bonds, as I understand it.

Hon. Mr. DUNNING: Do you mean the bank credits?

Mr. GEARY: Yes, the \$40,000,000.

Hon. Mr. DUNNING: I cannot just at the moment answer how it was authorized, but I know that before it went through the necessary authorization would have to be secured.

Mr. GEARY: You would guarantee it?

Hon. Mr. DUNNING: No, there was no guarantee.

Mr. COOPER: All the advances were against monies appropriated by Parliament.

Mr. HANSON: And it was a matter of policy, I understand, with the railway to borrow temporarily rather than to sell long-term securities.

Hon. Mr. DUNNING: Yes. In the Budget Vote this year, you will find at the bottom of page 2, the following:—

Should temporary loans be made or negotiated before the lapse of this appropriation either from His Majesty or other persons, guaranteed notes, obligations or securities may subsequently be issued under the provisions of the preceding paragraph of this enactment to renew, refund or adjust such loans, or any part thereof.

I could not put my finger on that at the instant, but Mr. Henry found it.

Mr. HANSON: I had no question that it would be authorized, but I wanted to know where.

Hon. Mr. STEVENS: You said, Mr. Cooper, that the borrowings from the banks were by notes discounted.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: Will you give us a statement of that to-morrow, when you give us the particulars of the other loans, showing just what you received for the discounted notes?

Mr. COOPER: They were discounted at the rate of $5\frac{1}{4}$ per cent.

Hon. Mr. STEVENS: For how long?

Mr. COOPER: Six months. They were due on April 15, and they have just been extended for six months.

Hon. Mr. DUNNING: At the rate of $5\frac{1}{4}$ per cent per annum?

Mr. COOPER: Yes.

Mr. GEARY: A little more than $5\frac{1}{4}$ per cent?

Mr. COOPER: Yes, a little.

Sir HENRY THORNTON: A question was asked as to how many miles had been abandoned, and the answer is 390 miles.

Hon. Mr. STEVENS: Does that include the stretch near Edmonton?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: Item 548.

Mr. COOPER: 548, Amortization of Discount on Funded Debt; 551, Miscellaneous Income Charges. Miscellaneous Appropriations of Income.

Mr. GEARY: Will you tell me on that discount, is there much on your present financing?

Mr. COOPER: On the \$35,000,000.

Mr. GEARY: In the last two or three years, you have issued 5 per cent securities, I suppose, and do you get anything near par for it now?

Sir HENRY THORNTON: You will correct me, if I am wrong, but I think it was about 97.

Mr. COOPER: The \$35,000,000 was issued at 94 and something.

Sir HENRY THORNTON: I can give it to you right here. There was \$65,000,000 issued at $4\frac{1}{2}$ per cent, 30 year Gold Bonds, at 97·02.

Mr. GEARY: Do you know at what those reached the public?

Sir HENRY THORNTON: Yes, at 98·5. Then there were \$35,000,000 40 year Gold Bonds, $4\frac{1}{2}$ per cent, at 94·15. issued December 1 last year. That was the last.

Mr. GEARY: Are you making them all $4\frac{1}{2}$ per cent now?

Sir HENRY THORNTON: We have not put out anything since that.

Mr. GEARY: Of course that is a question of financing, and if you make it a higher rate you may get more money for it, but that is what you set up the Amortization for.

Mr. McLEAN (Melfort): At the time you sold your bonds?

Mr. D. C. GRANT (Vice-President, Finance Dept.): The market at the time we put out this issue on December 1 last year of \$35,000,000 was against us. We would have liked to put out more than that amount, but the market, both here and in the United States, the underwriters told us, and it proved to be a fact, would not take more than \$35,000,000.

Mr. McLEAN: Except at a price?

Mr. GRANT: Except at a price.

Mr. McLEAN: What would you have had to pay?

Sir HENRY THORNTON: It would have gone on to nearly 6 per cent.

Mr. GRANT: I might mention, in connection with our equipment, that we got tenders and the price was approximately $5\frac{3}{4}$ per cent; but that was not sold.

Hon. Mr. DUNNING: It should be made clear that that was not sold.

Mr. GEARY: What does that $4\frac{1}{2}$ per cent represent as an interest charge to you?

Mr. GRANT: 4.82.

Mr. GEARY: I suppose if you tried to put out an issue when call money the other day in New York was 25 per cent you would not have got a very good price.

Hon. Mr. DUNNING: We thought that was a very good sale.

Mr. GEARY: I suppose I am right in this that if you got rid of all this government debt you would have been \$7,000,000 to the good?

Mr. COOPER: Yes.

Sir HENRY THORNTON: Of course that is what governs the whole of it.

Hon. Mr. DUNNING: I am looking for ideas. Do you suggest they should cancel that?

Mr. GEARY: No. If I knew as much as you know about it, perhaps I would.

Mr. McLEAN: That is not actually transferred to the Government but you hold that in accounts?

Mr. COOPER: That is right.

The CHAIRMAN: That disposes of the Income Statement. Shall we go now to Expenditures and Equipment, page 23?

Mr. GEARY: I would suggest that this would be a good place to stop.

Sir HENRY THORNTON: The next item is the Railway Operating Revenues and Expenses.

Mr. GEARY: We have done that.

The CHAIRMAN: Shall we go through the Expenditures applicable to investment in Road and Equipment?

Mr. GEARY: We either should take it up now or at another time, if it is going to take much time.

The CHAIRMAN: Does the Committee think we should go through the details on this account shown at page 23?

Mr. McLEAN: I think we might as well.

The CHAIRMAN: Very well, page 23.

Sir HENRY THORNTON: This, you understand, represents the additions to capital classified in the various items which you find on page 23.

Mr. GEARY: Yes, and a very inadequate amount for Law. You have only paid that unfortunate profession some \$12,000.

Hon. Mr. DUNNING: I do not want to find fault with the accounting staff, but if they give the impression that that is all the lawyers got last year, I want to dissipate that idea right now.

Mr. GEARY: Of course, if you buy a piece of real estate, I suppose the legal expenses would go to capital account.

Hon. Mr. DUNNING: For the purpose of getting on, I would suggest to the Committee that we plan tomorrow's work, as it is rather difficult to have all the officers around at the one time. If we are through with this question, would it be the desire of the Committee to take up the Merchant Marine, or to take up the Estimates? Or would you desire to finish up all the accounts before touching the Merchant Marine?

Mr. GEARY: I think that would be better.

Hon. Mr. DUNNING: Can we agree that we are through with these accounts? I can see no more in them myself.

The CHAIRMAN: I think we have already dealt with this in our analysis, and we have gone through the report more carefully than we usually did in the past.

Sir HENRY THORNTON: While waiting, may I make this suggestion for the consideration of the Committee, in order that we may get on with some important matters which are being held up, that the Committee authorize say 25 per cent of the Budget? Do you think that will be enough, Mr. Henry?

Hon. Mr. DUNNING: Mr. Robb does that. If there is any objection on the part of the Committee it may be an important matter. Nothing has been voted yet for the Canadian National, and it is rather important. I do not anticipate any objection from any quarter for the sixth, which will bring it into line with what the government will require for its own purposes, in a day or two, an additional sixth of the Budget, \$55,000,000.

Mr. GEARY: I do not think there is any need for our making any interim appropriation for interest.

Hon. Mr. DUNNING: As I understand the rule the one-twelfth or one-sixth, as the case may be, the general understanding is, and I do not think there is any written rule about it, that the proportion is that one-twelfth of the whole is allocated as one-twelfth of each vote. You notice that when the Chairman of the Committee reads the vote out he reads one-twelfth of the estimates which have been tabled.

Mr. GEARY: As far as the National Railways go, this is all one vote.

Hon. Mr. DUNNING: Yes, \$53,000,000. These estimates have been tabled and referred to this Committee.

Mr. GEARY: 25 per cent might cover all the money which the system is paying out to the public. Supposing of the \$53,000,000 a quarter of it was the interest payable to the public, that might cover the expenses which we desire to look into.

Hon. Mr. DUNNING: No, there is no separation.

Mr. COOPER: There is no net provision in the Budget for interest.

Mr. POWER: All these votes are without prejudice to any objection which may be taken.

Mr. GEARY: Oh, I have no objection. Do you want to have anything further about the Eastern Lines, Colonel?

Mr. CANTLEY: No.

Hon. Mr. DUNNING: It would not be very convenient to answer some questions unless the officers were here.

Sir HENRY THORNTON: Do I understand now that you are through with the Canadian National Railways?

The CHAIRMAN: Yes. Will somebody move the adoption of the report?

Mr. GEARY: Would you leave that over until tomorrow, as Mr. Stevens and others have taken quite an interest in it?

The CHAIRMAN: Then we will take that up tomorrow, and also the Merchant Marine estimates. We will meet tomorrow at 11.

The Committee adjourned until Wednesday May 1st, 1929 at 11 a.m.

SESSION 1929

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7—WEDNESDAY, 1st MAY, 1929

WITNESSES:

Sir Henry W. Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

Mr. D. O. Wood, Acting General Manager, Canadian Government Merchant Marine.

Mr. J. P. Doherty, Traffic Manager, Canadian Government Merchant Marine.

OTTAWA

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PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1929

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

COMMITTEE ROOM 375,

WEDNESDAY, May 1, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

Members present: Messrs. Cantley, Dunning, Geary, Gray, Hanson, Jelliff, Jenkins, McLean (Melfort), Milne, Power, Stevens.

In attendance: Sir Henry Thornton, President, Canadian National Railways, with members of his staff; also Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

Sir Henry Thornton supplied answers to questions asked at the last meeting of the Committee.

Sir Henry Thornton made a statement in which he drew a parallel between the condition of the Canadian National Railways during the last few years and that obtaining on American railways, west of the Mississippi river, following the Civil War.

ANNUAL REPORT OF CANADIAN NATIONAL RAILWAY SYSTEM

On motion of Mr. Geary,—

Resolved, That the report be adopted.

TENTH ANNUAL REPORT OF CANADIAN GOVERNMENT MERCHANT MARINE

The report addressed to the Minister of Railways and Canals, as contained on pages 4 and 5, was read by Sir Henry Thornton, and a general discussion ensued.

At 12.55 p.m., the Committee adjourned until to-morrow, 2nd May, at 11 a.m.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

COMMITTEE ROOM 375,

WEDNESDAY, May 1, 1929.

The Select Standing Committee on Railways and Shipping met at 11 a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: Let us come to order. I think, Sir Henry, you had a statement to make this morning.

Sir HENRY THORNTON: There were one or two questions asked yesterday. Mr. Stevens asked yesterday what securities have been issued and sold from January 1, 1923, to date and what maturing securities have been paid off. Give also the total in each case. The answer is as follows:—

Total of securities issued since January 1, 1923, was \$284,663,256.60.

Total securities matured and paid off since January 1, 1923, was \$102,611,367.72. There also has been an increase in sinking funds during the period of \$13,103,218.40.

Details of new securities and retirements of securities as follows:—

CANADIAN NATIONAL RAILWAYS

DETAILS OF NEW ISSUES 6 YEARS TO DECEMBER 31, 1928.

Guaranteed Issues	Date of Issue	Amount of Issue
5 $\frac{7}{8}$ % Equipment Trust Series "G".....	Aug. 1st, 1923.....	\$22,500,000 00
5% 30 Year Bonds.....	Feb. 1st, 1924.....	50,000,000 00
4 $\frac{7}{8}$ % 3 Year Gold Notes.....	July 1st, 1924.....	20,000,000 00
4 $\frac{1}{2}$ % 30 Year Gold Bonds.....	Sept. 15th, 1924.....	26,000,000 00
4 $\frac{1}{2}$ % 10 Year Gold Bonds.....	Feb. 15th, 1925.....	17,000,000 00
4 $\frac{1}{2}$ % 5 Year Gold Bonds.....	Feb. 15th, 1925.....	18,000,000 00
4 $\frac{1}{2}$ % 30 Year Gold Bonds.....	July 1st, 1927.....	65,000,000 00
4 $\frac{1}{2}$ % 40 Year Gold Bonds.....	Dec. 1st, 1928.....	*35,000,000 00
Total Guaranteed Issues.....		\$253,500,000 00
<i>Unguaranteed Issues</i>		
4 $\frac{1}{2}$ % Equipment Trust Series "H".....	July 1st, 1924.....	9,375,000 00
Can. Nat. Realities Land Mortgages.....	Various.....	951,000 00
4 $\frac{1}{2}$ % Equipment Trust Series "J".....	May 1st, 1927.....	15,000,000 00
4 $\frac{1}{2}$ % First Mortgage 30 Year Sinking Fund Gold Bonds (N.T.R. Branch Lines).....	Dec. 23rd, 1927.....	3,396,000 00
Indebtedness to State of Michigan.....	Various dates, 1928.	2,441,256 00
Total Unguaranteed Issues.....		\$31,163,256 60
Grand Total of New Issues.....		\$284,663,256 60

* Total issue of \$35,000,000 included, although \$8,666,000 was not actually issued until January 3rd, 1929.

CANADIAN NATIONAL RAILWAYS

Retirements of Funded Debt—6 years to December 31st, 1928

	Year 1923	Year 1924	Year 1925	Year 1926	Year 1927	Year 1928	Total 6 years
EQUIPMENT TRUST ISSUES—							
<i>Canadian National—</i>							
G. T. Rly.							
Series "C"	\$224,000 00	\$250,000 00	\$250,000 00	\$250,000 00	\$250,000 00	\$250,000 00	\$224,000 00
"D"	250,000 00	50,000 00	50,000 00	50,000 00	50,000 00	50,000 00	1,250,000 00
"U.S.R.A."	59,900 00	50,000 00	50,000 00	50,000 00	50,000 00	50,000 00	339,000 00
"G"	206,500 00	206,500 00	206,500 00	206,500 00	206,500 00	206,500 00	1,239,000 00
Can. Nat. Ry.							
"C"		1,500,000 00	1,500,000 00	1,500,000 00	1,500,000 00	1,500,000 00	7,500,000 00
"H"			625,000 00	625,000 00	625,000 00	625,000 00	2,500,000 00
"J"						1,000,000 00	1,000,000 00
<i>Canadian Northern Ry. Co.—</i>							
Trust Series "A"	450,000 00	450,000 00	450,000 00	450,000 00	400,000 00	400,000 00	2,600,000 00
"B"	375,000 00	750,000 00	750,000 00	750,000 00	750,000 00	750,000 00	4,125,000 00
"C"	750,000 00	750,000 00	750,000 00	750,000 00	750,000 00	750,000 00	4,500,000 00
"D"	750,000 00	750,000 00	750,000 00	750,000 00	750,000 00	750,000 00	4,500,000 00
"F-1"	220,000 00						220,000 00
"G-1"	55,000 00						55,000 00
"H-1"	70,000 00	215,000 00					70,000 00
"K-1"	210,000 00						210,000 00
"L-1"	132,000 00	132,000 00	132,000 00	132,000 00			425,000 00
Total Equipment Issues	\$3,752,400 00	\$5,063,400 00	\$5,473,400 00	\$5,469,400 00	\$5,291,400 00	\$6,041,400 00	\$31,091,400 00
<i>Grand Trunk Jct. Ry. 5⁶⁷ Bonds</i>							
Mount Royal Tunnel and Terminal Bonds							
Central Ontario 5% Bonds	\$76,883 34	\$77,866 66	\$77,866 67	\$74,460 00	\$102,199 99	\$519,332 00	\$519,332 00
Wellington, Grey and Bruce Bonds	11,193 33	8,273 35	11,193 39	8,273 33	4,866 67	93,440 00	502,726 66
G.T. Milwaukee Car Ferry Bonds	8,273 35	10,706 64	10,220 00	11,193 33	11,193 33	6,813 33	42,340 05
Portland and New England Elevator Bonds	17,000 00					15,573 33	67,159 98
Rail and River Coal Company Bonds	15,000 00	10,000 00	15,000 00	15,000 00	15,000 00	15,000 00	17,000 00
Can. Nor. Income Charge Debentures	21,000 00	1,000 00	28,000 00	30,000 00	19,000 00	4,000 00	85,000 00
Can. Nor. 5 Year 5 ¹ / ₂ % Notes	2,327 94	6,000,000 00				104,000 00	104,000 00
Can. Nor. 5 Year 6% Trust Notes		4,349,000 00				24,137,846 08	24,137,846 08
Can. Nor. 3 Year 5 ¹ / ₂ % Notes			11,000,000 00				6,000,000 00
Can. Nat. Realities Mortgages (Serial)							4,349,000 00
Montreal Warehousing Company Bonds							11,000,000 00
5% Bay of Quinte Ry. Firsts due Jan. 2, 1927				240,880 00	225,880 00	190,880 00	760,740 00
2% Can. Nat. 1927 Guaranteed Debenture Stock					25,000 00	105,000 00	994,000 00
4% Can. Nat. 3 year Gold Notes due July 1, 1927					730,000 00		730,000 00
Nat. Trans. Rly. Branch Lines Co. Bonds					1,070,811 53	1,014,670 80	2,085,482 33
Miscellaneous				148 41	20,000,000 00	124,000 00	20,000,000 00
					843 55	4 64	124,000 00
	\$3,904,087 96	\$15,511,973 30	\$17,583,780 06	\$5,849,058 25	\$27,494,507 97	\$32,267,960 18	\$102,611,367 72

In addition to the above there has been an increase of \$13,103,218.40 in sinking funds which will become available for debt redemption.

The refunding to be accomplished out of the new financing was given as \$57,189,209.84. If that figure is to be added to the totals shown above an amount of \$32,112,273.26 should be deducted, as otherwise there would be duplication of some of the items.

Sir HENRY THORNTON: Mr. McLean (Melfort) asked what was the number of foreign cars on system lines and the number of system cars on foreign lines during the peak period. The answer is as follows:—

The maximum peak period in freight car demand was in the fortnight centering on November 15. The car situation in that period was:—

Total cars on line..	144,820
Made up of—	
Cars owned by system..	119,026
Less owned cars on foreign lines	17,480
	101,546
Cars owned by other railways	38,254
Private cars	5,020
	144,820

For the period from August 15 to December 15, car demand was above the average for the year. The average car situation in this period was:—

Total cars on line..	140,118
Made up of—	
Cars owned by system..	119,275
Less owned cars on foreign lines	17,046
	102,229
Cars owned by other railways	33,006
Private cars	4,883
	140,118

Sir HENRY THORNTON: The word “foreign” in connection with transportation means some other railway than the one under discussion. For instance, we would regard the Canadian Pacific as a foreign railway, meaning apart from our own railway. The word “foreign” has no national significance.

Colonel Geary asked: How do you explain the decrease in interest on government advances of approximately \$8,000 shown in account 546A? The answer is as follows: The accounts for 1928 compared with the accounts for 1927 show a decrease of \$9,664.06 under account 546A—“Interest on Government Advances.” There was a decrease of \$11,767.24 brought about by the separation of the total interest computation as between Canadian National and Eastern Lines, but this was partly offset by certain accounting adjustments made in the allocation of the loan account between corporations. If the amounts shown for Canadian National and for Eastern Lines are added together, the combined total for 1928 is \$32,507,336 and for 1927 \$32,505,233, a difference of only \$2,103.

Sir HENRY THORNTON: Mr. Chairman and gentlemen of the Committee: If it meets with your approval, there is a short statement I would like to make, which I think perhaps will be illuminating and useful. It relates to the financial history, if one may call it such, of the Canadian National Railways as compared with the railways in the United States west of the Mississippi river. I will try to make this statement as brief as possible, because I think it is of some interest.

When we come to regard the Canadian National Railways as a separate corporation, and review its financial history, we are very apt to feel somewhat appalled at the amount of money which has been spent on the property, and have some considerable doubt as to the wisdom of the policy that was followed. Some perhaps even to-day have doubts as to the ultimate financial security of the Canadian National Railways system.

Now, in regarding things of this sort it is sometimes useful to have something of the nature of a yardstick to measure it with, and also to have some regard for the experiences of other things of a similar nature elsewhere. Therefore, while I am not attempting to make any precise comparison between what has happened with respect to the Canadian National Railways system and what has happened to the railways of the United States west of the Mississippi river since the Civil War, at the same time there is a certain comparative aspect which, when it is examined, puts our own position in a rather more encouraging light than might be the case if we examined it without reference to similar experiences elsewhere. I am comparing with the territory west of the Mississippi river because from a geographical, traffic and development point of view it is measurably similar to the situation which has confronted us in Canada, particularly west of the Great Lakes. We find that in the territory in the United States, to which I refer, and in the period under consideration, there have been 191 reorganizations of railway properties. We find that \$874,000,000 have been eliminated—lost, in those reorganizations and securities to the amount of \$1,141,000,000 were stepped down from a superior to an inferior position in the reorganization. If those losses were subject to interest—as has been the case with our own deficits because we are charging interest at 6 per cent on our deficits—the total figure which might be considered comparable to the deficits of the Canadian National Railways and its liability to the government, would run into a colossal figure—I think it is \$3,250,000,000.

In other words, what happened in the United States was that it was a loss which was borne by the investors—by the public. In Canada the government for good and sufficient reasons stepped into the breach and carried the burden, which, as I said, in the United States was carried by the public, so that whatever may have been the mistakes and whatever may have been the history of the Canadian National Railways in the past, it is not materially different from what has been experienced elsewhere, and comparatively is probably better—

Mr. JELLIFF: What is the comparative mileage involved?

Sir HENRY THORNTON: I was going to mention that a little later, but since you have asked the question I will say that it is 125,000 miles.

Hon. Mr. STEVENS: West of the Mississippi?

Sir HENRY THORNTON: Yes, only west of the Mississippi. Now, there are facts which I think will be of interest to you. The receivership history of those railways shows that in 1875 and 1876, 12 per cent of that mileage was in receivership. If you come down to the period of 1892, and as late as 1894, 29·4 per cent—nearly 30 per cent—of the railway mileage west of the Mississippi river in the United States was in receivership. Again, in 1916, 20·4 per cent of the mileage in the territory we are discussing was in receivership—even so late as 1916.

Now, we hear a good deal about the assistance which has been given to Canadian railways by the governments in the land grants of different sorts. We find that very much the same policy was pursued in the United States, and that the United States Government gave to its railways west of the Mississippi river lands which were ultimately sold for \$410,000,000. That is exclusive from state grants. If you include state grants you find that it adds up to about \$225,000,000 in addition to the figures I have given you, which represent assistance from the states, corresponding to assistance given by the provinces here.

Now, here is a curious situation. Commencing with 1860 we find that the population per mile of railway west of the Mississippi river was 1,724.

Hon. Mr. STEVENS: In 1860?

Sir HENRY THORNTON: In 1860, when one may say that railway construction west of the Mississippi river commenced. In 1870 it dropped to 596 souls

per mile of line; in 1880 it dropped to 365; in 1890 to 242; in 1900 to 249; in 1910 to 239; and in 1920 the population per mile of railway was represented by 262. Since that time it has climbed up.

Hon. Mr. STEVENS: How does that compare with ours?

Sir HENRY THORNTON: I do not know. I have not the figures, but I can get them.

Mr. FAIRWEATHER: Roughly speaking, it is about 200 people per mile in Canada.

Hon. Mr. STEVENS: In the west it would be less?

Sir HENRY THORNTON: Yes. Now, we find from 1860 to 1920 the population of the western states increased from 5,312,000 to 35,355,000, and that increase of course, as you would naturally expect, took place rapidly in the latter years, more so than in the earlier years. In other words, the western part of the United States suffered a period of over-building—if you want to call it such—of railway mileage, and it was not for some decades that the advancement in population overtook economically the construction of that mileage. Furthermore, that increment in population would not have taken place had the mileage not been built, and had not the public and the investors stood their losses during the development period.

The only point about that is, when you come to compare it with Canada, our position is about the same, or if different at all it is a little better. I think we are getting our results more quickly than was the case in the United States.

Mr. HANSON: Is that not due to the fact that we produce more in Canada?

Sir HENRY THORNTON: Undoubtedly, but the real point is that in order to develop a country railway mileage must be built for that purpose, and there is a certain period in which that mileage will not be profitable. Those who have provided the capital for the construction of such mileage have to wait until the population overtakes the railway.

The CHAIRMAN: Are there any other questions to ask of Sir Henry?

Hon. Mr. STEVENS: You wanted to close up this report.

The CHAIRMAN: We just postponed closing it while you were absent yesterday.

Hon. Mr. STEVENS: I do not think I have any further questions to ask.

Mr. GEARY: Mr. Matthews told us something of the methods of auditing, and I understood him to say that these accounts were all of your set up.

Mr. COOPER: That is so.

Mr. GEARY: And the balance sheet also?

Mr. COOPER: Absolutely; everything in that report.

Mr. GEARY: And they take your set up and work back from that as far as they like?

Mr. COOPER: As far as they wish, until they are satisfied that they can give that certificate.

Mr. GEARY: I was going to ask you regarding your idea of this certificate. Anyone who knows this firm of Touche & Company knows they are thoroughly responsible people, and no one will suggest they are not thorough and exact, and Mr. Matthews, to my knowledge, is a most excellent accountant. Do you think they could produce any more correct results or more understandable accounts?

Mr. COOPER: I would say that it would be absolutely impossible for them to construct that balance sheet.

Mr. GEARY: You do not think any accounting firm could do that?

Mr. COOPER: We have about 2,400 people in the accounting department, and if they were going over the work as we go over it, they would also need about the same number.

Mr. HANSON: Then it is not an impossibility, but simply a question of the magnitude of the task.

Mr. COOPER: Why should they? The purpose for which we are paid by the Canadian National is to do this particular work. Why get in an outside firm at a higher price to do what we are paid to do?

Mr. GEARY: Their function is to check back as far as they think necessary?

Mr. COOPER: Yes. They watch our work during the year; they understand our practices; they discuss our theories, and when we come along at the end of the year with an income statement and a balance sheet, we ask them to certify that it is correct, in their judgment.

Sir HENRY THORNTON: They must take the necessary steps to be able to certify or refuse.

Mr. GEARY: But the items which go into the balance sheet are subject to their consideration as to whether or not they are properly in?

Mr. COOPER: Yes.

Mr. GEARY: And they take items on both sides of the sheet and check back?

Mr. COOPER: I would not say just what they do.

Mr. GEARY: They are paid by the Canadian National Railways?

Mr. COOPER: Yes.

Mr. McLEAN (Melfort): They carry it on continuously; it is not just at certain times of the year?

Mr. COOPER: They have a few men in the office all the year round, checking up capital expenditures, and at the end of the year they bring in some extra forces. It is the same practice which goes on in every industry.

Mr. GEARY: It is really just a checking up of your reports?

Mr. COOPER: Yes. There are some industries which do not employ an accounting staff to make a proper balance sheet, and sometimes a chartered accountant is asked to do that, but not in our case.

Mr. GEARY: So it is impossible for these outside auditors to do more than take your set up and check back from it to satisfy themselves?

Mr. COOPER: Yes; I would not hesitate to say that.

Mr. GEARY: It adds nothing to the correctness of the sheet, but increases the promptness with which it may be received.

Mr. COOPER: No; I think it rather adds confirmation to it. If you have two independent people going over one set of accounts and reaching the same conclusions as to its correctness, it adds confirmation.

Mr. GEARY: Are these retained by the government, Mr. Minister, (Hon. Mr. Dunning)?

Hon. Mr. DUNNING: No.

Sir HENRY THORNTON: They are retained by the railway company as is the case with any private firm.

Mr. GEARY: Does the government step in at all on the check-up?

Hon. Mr. DUNNING: There is our own finance department check-up, and the railway comptroller's branch check-up as to the relationship between the two.

Mr. GEARY: You do not profess to touch the balance sheet?

Hon. Mr. DUNNING: No, but if it is an important item, I think Mr. Cooper would have a reconciliation of the railway accounts on the one hand and the government accounts on the other.

Mr. COOPER: We always make that reconciliation between our records and the departmental records.

Mr. HANSON: That is only one phase of the situation.

Mr. COOPER: Yes; we reconcile our accounts with banks and with trust companies wherever we have an account which should be confirmed by the creditors of the railway. We have those confirmations, and we submit those certificates to Touche & Company. I think they also get independent certificates in some cases.

Mr. GEARY: How far back does your accounting department go?

Mr. COOPER: We have complete control of all the accounts.

Mr. GEARY: Are your employees all at the head office, or are they distributed amongst the various offices?

Mr. COOPER: We have them in the head office, the regional offices, the offices of the subsidiary companies, and even in the offices of the shops.

Mr. GEARY: And your department attends to the confirmation of all payments, no matter how small?

Mr. COOPER: Our treasury department cannot pay a voucher unless there is a certificate from the accounting department that it has been audited and found correct.

Hon. Mr. DUNNING: I think I did not quite catch your question at first, Mr. Geary. So far as the outside auditing firm is concerned, the government initiated that when the railway was put together as a matter of necessity.

Mr. GEARY: You cannot get a more responsible firm than Touche & Company.

Hon. Mr. DUNNING: The theory was to get a firm of outside auditors to do two things: to ensure that the system followed by the railway was such as to give an accurate picture of the results, and also to make such tests of the various accounts with particular reference to the capital account, which they check completely, so as to ensure that the system followed is a sound one, and also to enable them to certify to the balance sheet as being correct. As to how far they shall go is entirely in their own hands.

Mr. GEARY: My question was directed as to whether the government or the system should retain them.

Hon. Mr. DUNNING: The system retains them and pays them.

Sir HENRY THORNTON: I do not think it makes any difference provided they remain, as in this case, above reproach.

Mr. HANSON: I agree with that. We have had long years of experience with this same firm and have found them most satisfactory.

Sir HENRY THORNTON: I would like to ask one question. I do not want to put a wrong construction on the questions which have been asked, but at the same time I am personally responsible for the accuracy and honesty of our accounts and operations. The various other officers share that responsibility to a degree, but if anything goes wrong I can very quickly see my finish. Now, I want to ask this question, whether in the mind of any member of this Committee there is any doubt or suspicion as to the honesty or fidelity with which the previous accounts have been prepared and rendered. If there is any suspicion I want the fullest and most complete investigation.

Mr. GEARY: There cannot be, because we have your own excellent staff with an outside firm checking it up. If there is anything of that sort it would be a special instance which would be brought out.

Mr. HANSON: There is certainly no suspicion from the gentlemen on this side of the House which would lead you to make such a statement.

Sir HENRY THORNTON: I did not make the statement and I did not ask the question in any contentious spirit, but to see if anyone perchance had any suspicions—and sometimes suspicions do exist—and if any one had the slightest suspicion I want to know about it right now.

Mr. GEARY: That would only come up in connection with an individual item. Our questions have only been asked so that the public will know what is going on.

Sir HENRY THORNTON: My question was not asked in a spirit of criticism or contention.

Mr. McLEAN (Melfort): All the questions have been asked for information, so that the Committee may understand the system better, and the public, through the Committee's report, can better understand the situation.

Sir HENRY THORNTON: I would rather answer ten unnecessary questions than let one go by which ought to be answered. I would like to have more questions rather than a less number.

Mr. GEARY: In order to have the public confidence, I am sure you are glad to answer any questions.

Hon. Mr. DUNNING: It also has the value of giving the Committee a greater education in railroading.

Sir HENRY THORNTON: I think it is profitable both ways; certainly I have profited.

Mr. GEARY: As far as the accounting department goes, a great many questions have been asked concerning which the department has been able to give complete information and has made understandable replies.

Sir HENRY THORNTON: I have noticed, with the passing of the years, with a great deal of satisfaction, the improved relationship between the House of Commons as a whole and the railway, and between this Committee and those who sit on this side of the table, and to-day all of our officers look forward with pleasure to meeting this Committee instead of looking at it as an unpleasant inquisition.

Mr. GEARY: That does not say if there is any suspicion to be raised about anything that you may not expect it to be raised as thoroughly as it can be.

Sir HENRY THORNTON: I want it to be raised every time. I want nothing concealed, because our only defence is honesty and frankness.

Mr. HANSON: I would not like to go on record as supporting Mr. Geary without reserving my opinion as regards public ownership. We are committed to public ownership in the case of the National railways, and every one of us wants to see it succeed, but in regard to that principle being applied to everything, I want to make my position clear that I am not as whole-heartedly in support of it as is Mr. Geary.

Hon. Mr. DUNNING: Could you two gentlemen (Messrs. Geary and Hanson) not agree that so far as public ownership applies to the Canadian National Railways system, you are both behind it. It is the only thing to do at the present time. That, I think, will be common ground.

Mr. HANSON: I might go that far. I think it was brought into public ownership because there was no other way out.

Mr. McLEAN (Melfort): It is a case of it being here, and we must make the best of it whether we like it or not.

Sir HENRY THORNTON: If this thing continues there will be only one political party in Canada.

The CHAIRMAN: It will degenerate into a society of mutual admiration. I think probably Mr. Stevens would also become a member. Will some one move that the annual report of the Canadian National Railways system be adopted?

Mr. GEARY: I will so move, Mr. Chairman.

Mr. McLEAN (Melfort): I second that motion.

(Carried.)

The CHAIRMAN: We will now proceed with the tenth annual report of the Canadian Government Merchant Marine. Will you proceed, Sir Henry?

Sir HENRY THORNTON: This is the tenth annual report of the Canadian Government Merchant Marine. The accounts as certified by the auditors show decreases of \$1,121,453 in operating revenues; and of \$633,106 in operating expenses. The net operating loss was \$1,209,083 as compared with a corresponding loss in 1927 of \$720,735.

The operating ratio for 1928 was 113·27 per cent as compared with 107·04 per cent in 1927.

After debiting \$2,431,315 for depreciation and \$3,905,126 as representing interest on Government notes and advances, the total nominal loss for the year was \$7,545,525 as compared with \$7,086,939 in 1927.

Generally speaking the adverse showing was due to reductions in rates, to increased competition on certain routes as well as to the strike at Antwerp during the summer months and the continued reduced buying power in South Wales due to the limited coal mining operations. Owing to these unfavourable conditions a comparison of the actual earnings in 1928 and 1927 does not reflect the true position.

Study is being given to the reorganization of certain services looking to securing better results in future.

The only accidents to report are the grounding of the *Canadian Mariner*, and collisions met with by the *Canadian Explorer* and the *Canadian Rover*.

In connection with the West Indies services, arrangements are being made to transfer seven vessels of the fleet from the company's accounts to those of the Canadian National (West Indies) Steamships, Limited.

The three new vessels for the West Indies Service Eastern Route, namely, *Lady Nelson*, *Lady Hawkins* and *Lady Drake*, were delivered by the builders in 1928, the first two named steamers sailing from Halifax on December 12th and 28th respectively. As neither of these steamers completed a voyage in 1928, the voyage results will be included in the West Indies Company report for 1929.

The two steamers intended for the Western Route, namely, *Lady Somers* and *Lady Rodney*, have just been delivered. When they commence operating Canada will have fulfilled her obligations as regards the provision of steamship services under the West Indies Trade Agreement of 1925.

The maximum number of directors has recently been increased to correspond with the directorate of the Canadian National Railway Company; with the result that in future the boards of the two companies will be identical. The enlarged board is shown in this report.

The directors have pleasure in recording their appreciation of the satisfactory service and continued loyalty of the company's officers and employees both afloat and ashore.

The CHAIRMAN: Shall we now go on with the consideration of the balance sheet?

Mr. HANSON: There are one or two matters arising out of the report. Will the new corporation of the Canadian National (West Indies) Steamships, Limited, be a subsidiary of this company, or what is your corporate layout?

Sir HENRY THORNTON: It is a separate company, from a corporate point of view.

Mr. HANSON: Is it a subsidiary of this company?

Sir HENRY THORNTON: For convenience it will be included in the report of the Canadian Government Merchant Marine, but it has a separate corporate identity.

Hon. Mr. STEVENS: Who owns the stock?

Sir HENRY THORNTON: The Government owns all of it.

Mr. HANSON: It is really a second steamship company, but for a common purpose it will be handled as you suggest.

Sir HENRY THORNTON: Yes.

Mr. HANSON: What is the gross cost to the company of implementing the provisions of the West Indies Trade Agreement of 1925, in so far as it relates to the capital expenditures of these steamers?

Mr. COOPER: Order in Council 433 authorizes us to borrow \$9,500,000 against the capital expenditures of the West Indies Services.

Mr. HANSON: That is your enabling authority?

Mr. COOPER: Yes.

Sir HENRY THORNTON: How much have we invested already, Mr. Cooper?

Mr. COOPER: The cost of the five "Lady" boats is approximately \$8,084,000.

Mr. HANSON: In addition to that, you will use, will you not, some of the other ships, or do these five ships cover the whole route?

Sir HENRY THORNTON: No; there will be some additional ships.

Mr. COOPER: The *Canadian Aviator* is to be converted; the cost of that conversion is \$351,000.

Mr. HANSON: Without taking anything into account for the book value of the ships.

Sir HENRY THORNTON: If you look on the last page of the report you will see at the bottom seven ships with their deadweight tonnage, which are to be employed in connection with the new West Indies service.

Mr. HANSON: I want to know what the cost to the country will be for those seven ships, to be converted, so that we will know how much money we have invested in carriers for this West Indies service. I do not expect an answer to that now.

Mr. COOPER: Taking the original book cost of the present ships in the Merchant Marine, they would simply have to be written down to a depreciated figure, to which would be added the cost of conversion, to enter into the new steamship setup.

Mr. HANSON: You write off every year so much for depreciation?

Mr. COOPER: We do not write off the cost of the vessels, no. We set up a depreciation reserve. It is entirely a bookkeeping entry. We do not reduce the book value of the vessels themselves.

Mr. HANSON: You set up a reserve?

Mr. COOPER: Yes.

Mr. HANSON: And the difference is the net?

Mr. COOPER: I thought you said you reduced it, and I was correcting that point.

Mr. HANSON: The practical effect is to reduce the book value?

Mr. GEARY: That would not go into the transfer of book values, because there will be a credit to your depreciation reserve.

Mr. HANSON: And the net is the present cost of those ships so transferred.

Mr. HENRY: \$25 per ton is the value at which they have been tentatively taken in.

Hon. Mr. DUNNING: It would be unfair to take them in at anything like the original cost, less ordinary depreciation.

Mr. HANSON: Probably so, because they were built at war prices. What I am trying to get at is about how much money, in millions—that will be close enough for me—we are going to invest in this service.

Hon. Mr. DUNNING: Including the cost of transferring the boats.

Mr. HANSON: And the conversion.

Mr. COOPER: It will be \$9,500,000.

Mr. HANSON: You have spent \$8,000,000 for the new ships, and it costs \$350,000 to convert each one of these other seven?

Mr. COOPER: No, just two. The *Aviator* and the *Hunter* will be converted. The make-up of that \$9,500,000 is: \$8,084,000 for the five new ships; the *Aviator* was converted at a cost of \$351,000, and Wahl and Company, naval architects, of London, England, placed a value on the vessel after conversion, of \$425,000, so I am putting in \$425,000 for that ship.

Mr. HANSON: Without anything for this \$25 per ton to which Mr. Henry referred.

Mr. HENRY: Approximately \$25 per ton.

Sir HENRY THORNTON: It is the cost of conversion plus about \$25 a ton.

Mr. HANSON: You are putting her in at a valuation of \$425,000.

Mr. COOPER: Yes. The same with the *Hunter*.

Mr. GEARY: I did not quite catch that. That is not \$25 per ton on the *Aviator* and \$350,000 for conversion, with your present valuation of \$425,000.

Mr. COOPER: I am putting the value placed on the vessels by Wahl and Company, and they said that they were worth \$425,000 after conversion.

Mr. HENRY: Apparently in that case they have put a little lower valuation.

Mr. COOPER: The *Carrier*, *Otter*, *Runner* and *Volunteer* each go in at \$114,000, which is \$25 per ton. There is no conversion there.

Mr. CANTLEY: What about the *Sapper*?

Mr. COOPER: I put that in at the same figure.

Mr. HANSON: There is \$8,000,000 for the *Lady* vessels, and seven, of the boats go in on a valuation made by the naval architects. Give the ships and the amounts, and we can get the gross in that way.

Mr. COOPER: For the five *Lady* boats, \$8,084,000; for the *Aviator*, \$425,000; for the *Hunter*, \$425,000; for the *Carrier*, \$114,000; for the *Otter*, \$114,000; for the *Runner*, \$114,000; for the *Volunteer*, \$114,000; and for the *Sapper*, I would say, \$250,000.

Mr. HANSON: She was one of those which had been converted?

Mr. COOPER: She was converted and the cost of conversion was \$180,000. As I say, she goes in at \$250,000.

Hon. Mr. DUNNING: These figures are all approximate?

Mr. COOPER: Yes. I think as far as the four ships at \$114,000 each are concerned that has been tentatively agreed to, but as far as the two ships at \$425,000 are concerned, I do not think there has been any agreement on that as yet.

The CHAIRMAN: What is the total of the figures you read?

Mr. COOPER: About \$9,750,000.

Mr. HANSON: What other capital expenditure will be required before the Canadian National (West Indies) Steamships, Limited, is a real going concern, or is there any other capital?

Mr. COOPER: I do not know of any other.

Sir HENRY THORNTON: I do not know of anything else.

Mr. HANSON: Unless you are building docks in the West Indies, for instance.

Sir HENRY THORNTON: We have not embarked on that.

Mr. HANSON: Or hotels—such as the *Constant Springs*.

Sir HENRY THORNTON: That is a United Hotel proposition.

Mr. CANTLEY: I suppose you are supplying additional refrigerator cars to take care of this fruit traffic?

Sir HENRY THORNTON: That is not included in this.

Mr. CANTLEY: You probably will have more cars than you otherwise would have, to take care of this traffic?

Sir HENRY THORNTON: Probably.

Mr. McLEAN (Melfort): Could these ships be sold at about this price?

Mr. COOPER: I cannot answer that.

Mr. WOOD: Well, I think if these ships were fixed up and in shape they should bring at a sale probably in the neighbourhood of \$35 to \$40 per ton, in good shape.

Mr. McLEAN (Melfort): Before being fixed up?

Mr. WOOD: Before they were fixed up they would bring, I should think, probably \$25 a ton.

Mr. HANSON: However, this is but an arbitrary figure between the two government departments.

Hon. Mr. DUNNING: There is a rather important factor into which I need not go at this time. We have not got the ships at these figures yet.

Mr. GEARY: How will it affect the balance sheet?

Mr. COOPER: It will be a separate balance sheet. The capital stock of the West Indies company will be held by the government, but it will not appear in the Merchant Marine balance sheet; it will be a separate balance sheet.

Mr. HANSON: You will have to make some deductions for 1927.

Hon. Mr. STEVENS: Treat them as railway cars, and write off the original?

Mr. COOPER: We certainly shall.

Mr. McLEAN (Melfort): You would treat them as you would any other ships sold?

Mr. COOPER: We would reduce the Merchant Marine Investment Account by the amount presently carried in respect of these vessels. The capital stock and Government Note Liability would be reduced by the same amount. The Depreciation Reserve and the Government Interest Account would be reduced by the amounts included therein applicable to these vessels.

Hon. Mr. STEVENS: And the amount you get for the vessels will be credited?

Mr. COOPER: It will be credited against the net liability held by the government in respect of the original advances for the vessels.

Hon. Mr. STEVENS: Can you give us an idea of what that will mean—within a few dollars?

Sir HENRY THORNTON: It cannot be done in "a few dollars."

Hon. Mr. STEVENS: Quite a few.

Mr. GEARY: You write them out of book cost, but you do not take them in at book cost.

Mr. COOPER: That will be shrunk out of the public accounts somewhere; except that it is already out of the public accounts and is now represented in the net debt.

Hon. Mr. DUNNING: A non-active asset.

Mr. COOPER: Yes, it is charged in the debt at the present time.

Hon. Mr. STEVENS: Your profit and loss deficit will be affected.

Sir HENRY THORNTON: These ships will cost us roughly about \$1,000,000 apiece.

Mr. MILNE: What does a new "Lady" ship cost per ton?

Mr. WOOD: 6,700 dead tons—

Mr. COOPER: It would be a little less than \$200 a ton.

Sir HENRY THORNTON: You must remember that those were not only passenger ships, but also fitted with some very expensive refrigerating machinery. They are a special type of ship.

Mr. CANTLEY: What is the character of the reconditioning you put into these seven ships, which are transferred to the railroad direct?

Mr. DOHERTY: There are two steamers, the *Canadian Aviator* and the *Canadian Hunter*, which have been fitted to carry bananas, so that we shall have four steamers, the two passenger boats, and the two freight boats, giving us a weekly service as between Canada and Jamaica. The *Canadian Sapper*, which makes the third, operates as between Kingston, Jamaica, and Belize, as a connecting steamer, so that Belize will be taken care of in the service as in the past. The other four steamers, the straight freight boats, have had no alterations and will carry on as straight freight carriers.

Mr. JELLIFF: Could you give us an idea of the prospects for this new field, as to whether it is going to be a profit making or a loss taking proposition?

Sir HENRY THORNTON: That is not altogether an easy question to answer. These ships, in their inception, were built to comply with certain provisions of treaties negotiated between the West Indian governments and Canada. As far as prospects are concerned, I should say that ultimately the prospects ought to be as good as we originally estimated them to be. Now, of course, much depends on the banana product in the West Indies, and much also depends upon the marketing conditions in Canada. Also much depends upon what development takes place in the West Indies. I believe that there is a considerable future ahead of the British West Indies government after this service is provided and the instrumentality is brought into existence which will enable producers not only to market what they produce in the West Indies, but will also encourage them to produce more and better fruits and vegetables and products which are susceptible of consumption in Canada, and there will have to be developed better methods, not only of raising fruit, but in sorting and packing it, and in that respect we will have to co-operate with the West Indian governments for the purpose of assisting them in promoting further production in the West Indies. To a certain extent it is a good deal like a railway being built into a new country. That country already has certain productive capacity, but by wisdom and energy the productive capacity can be increased. There will have to be a certain degree of co-operative missionary work done in the West Indies. Personally, I do not think the West Indies are producing either as much or as good a character of product as will ultimately be possible. To some extent, when you ask me what will be the possibilities of our West Indian service I should say it is an adventure, an adventure which will, if it is going to develop into a productive reality, require study and thought and vision and co-operation between the producing instrumentalities in the West Indies and the West Indian governments. A fair proportion—perhaps even a large proportion of West Indian production is going to the United States, and probably a fair proportion of materials and commodities of different sorts which are used in the West Indies are in turn purchased in the United States. It will be our objective to try and divert both of those in favour of Canada.

Mr. HANSON: Has not the United Fruit Company started a competitive service to Canada?

Mr. WOOD: They have started a service to St. John. I understand it will be in operation in the winter.

Mr. HANSON: But they have started?

Mr. WOOD: No, but I believe they will early in May.

(After a statement by Sir Henry Thornton).

Mr. JELLIFF: Does the Department of Trade and Commerce see to it that we are well represented in working up business for this trade?

Sir HENRY THORNTON: That is a question which I cannot answer. I do know that the Department of Trade and Commerce has certain trade commissioners in the West Indies, but just what the present position is I do not know.

Mr. JELLIFF: There must be a lot of missionary work to be done down there.

Sir HENRY THORNTON: We have only lately selected the best man we could find as general traffic representative in the eastern group of West Indian governments. He has just left. We are relying upon him to make a careful study of the whole situation and to advise us fully with respect to methods and means which we may adopt to increase production and consequently traffic to and from the West Indian islands. We propose to send a similar man to the western group very shortly, and as far as the railway is concerned we propose to conduct an active and aggressive campaign in the British West Indies for increasing our trade.

Hon. Mr. DUNNING: In connection with that, you might mention the other matter?

Sir HENRY THORNTON: In view of our relations with the United Fruit Company and other considerations, I would like that this be left out of the minutes.

The CHAIRMAN: Leave it out, please.

(Discussion followed.)

The CHAIRMAN: Shall we go on with the balance of the sheet, item by item?

Mr. McLEAN (Melfort): Before going on with this does Sir Henry think that there is a likely field for Canadian development in the West Indies?

Sir HENRY THORNTON: That is a pretty difficult question to answer. There is not any doubt but what there is a field in the West Indies, as I pointed out, for an improved character of production, and improved methods of production. When I say production, I mean the fruits and molasses and what you would describe as the products of the soil of the British West Indies. Now in order to bring that about, undoubtedly it will mean the investment of capital, and I should think there might be an attractive field for the investment of capital in the West Indies on the part of those who understand West Indian production, or who can support themselves by the right sort of technical advice there. That is about as nearly as I can come to answering that question. I will give you one little instance, which perhaps bears upon the whole situation. I understand that crude Barbadoes syrup or molasses is sent up in bulk to Canada and is there refined and put up in tins or glasses and sold under some kind of a trade name. One would naturally think that the place to refine that molasses would be at the place of production, that it could be done cheaper there, and if that were done it could be put upon the market under some kind of an attractive trade name, such as fine Barbadoes syrup, or something of that sort. That would necessitate the construction of a small factory to make tin cans, and the necessary machinery to refine the syrup. That would seem to be the economical and sensible thing to do; and yet it is not being done. It is quite conceivable that with enterprising capital a fairly attractive business could be built up in refining and exporting Barbadoes syrup at the point of production. Now there may be fifty other things which are in the same condition. The question which you ask is not an easy one to answer.

Mr. McLEAN (Melfort): I appreciate that, and I wanted your opinion at the moment because I would like to follow it up from year to year.

Sir HENRY THORNTON: This whole thing which we call the West India adventure is still unexplored in its possibilities, as far as we are concerned. Now what ingenuity, enterprise and courage will develop in the West Indies, in the way of trade, I do not know, but you have this situation at least, that soil and

climate and conditions are favourable to certain kinds of production; you have a good transportation agency to market your production; and we have got an increasing population in Canada which will absorb that production. All the ingredients would seem to be there. The only things that remain are vision, ingenuity, and enterprise.

Mr. McLEAN (Melfort): One more thing, is there a large enough area of land which is not being put to useful purposes now available?

Sir HENRY THORNTON: I do not know. We will know more about that after our traffic representatives have made a thorough canvass of the situation. I should say that probably not all the available land has been absorbed in production, but how much is left I do not know.

Mr. CANTLEY: The great trouble is that the people down there do not want to work, if they can make a living otherwise. If you enlarge their scale of living you will have solved the whole trouble.

Sir HENRY THORNTON: There are in the West Indies a number of very sound business men. Perhaps one thing which may have hampered them is lack of leadership. After all, somebody has to bang the drum and lure the public to buy. Another difficulty that I think they have encountered is what I would call disintegrated effort, each one trying to do something by himself which he is not capable of doing, but which they could accomplish co-operatively. And probably the solution of the whole thing is going to be a very much higher degree of co-operative marketing.

Mr. HANSON: I think Colonel Cantley has put his hand on the weakness of the situation. I was told that an American company brought an efficiency expert into Porto Rico, and he was going to speed up production. They work for 75 cents a day on the plantations, and he offered them higher pay; but the result was that they worked so many days less. That is not an unusual experience.

Mr. GEARY: They have very active trade commissioners down there.

Mr. HANSON: I think what we ought to be concerned with is not so much increasing the trade from the West Indies to Canada as increasing the trade from Canada to the West Indies.

Sir HENRY THORNTON: That is right. Mr. Doherty is here.

Mr. HANSON: You are in the Transatlantic Combine, are you not, as far as the freight rates are concerned?

Sir HENRY THORNTON: I will answer that question. We are not as one might say in the Transatlantic Combine, but we work in a co-operative way with them.

Mr. CANTLEY: I admire your caution, sir.

Sir HENRY THORNTON: You can pretty nearly catch me either way. Let me say this. Mr. Hanson, that after all you have to work with your competitors.

Mr. HANSON: You have to meet the condition which exists, and I agree with you. Now it is the practice, I understand, of the Combine to accept on non-perishable goods collect shipments so far as water carriage is concerned, that is transatlantic. In other words, all you ask the shipper to pay is the railway freight to the point where the shipment is at the side of the ship, and the steamship company collects from the consignee at the other end, on non-perishable shipments.

Sir HENRY THORNTON: That has been done. It is not the rule, because we prefer to have our shipments prepaid.

Mr. HANSON: It is done?

Mr. DOHERTY: Yes, but it is not the custom.

Mr. HANSON: You do not apply that rule to shipments of non-perishable goods to the West Indies?

Mr. DOHERTY: So far as the West Indies are concerned we are anxious, for reasons of accounting methods, and both Mr. Cooper and Mr. Davidson will probably tell you that we are anxious to have all our freights prepaid.

Mr. HANSON: But solely for your own convenience for accounting methods. That is the reason you gave to Mr. O'Hara the other day.

Mr. DOHERTY: Absolutely.

Mr. HANSON: And that is your only reason?

Mr. DOHERTY: Absolutely.

Mr. HANSON: Then let me point out to you that you will not extend your trade to the West Indies unless you give the shippers of non-perishable goods that right.

Mr. DOHERTY: I suppose we have been in the shipping business since 1918, and have been carrying cargos all that time, and the first time we have had any question raised in connection with the prepayment of collection of freight rates on lumber came within the last fortnight or three weeks.

Mr. HANSON: It came through me.

Mr. DOHERTY: Within the last fortnight or three weeks.

Mr. HANSON: People are anxious to extend their business with the West Indies, and the Lumber Companies say that in the Maritime Provinces or Eastern Quebec they are always anxious for new markets. They are being crowded more or less by the West coast stuff in the American market, which has killed practically all of their American trade. And when this propaganda arose for increased trade in the West Indies, someone looked into that and they were met with this, that they would not only have to pay the freight to tide water to put it on to the ship, but they would have to pay the freight clear to the point of destination. If they were shipping it to Liverpool they would not have to do that; and the only reason given by you, Sir, was for convenience in accounting methods. I gather that there is a difference in exchange, or you wish to have your money in Canada.

Mr. DOHERTY: There are various ingredients but we are carrying lumber in everyone of our steamers to the West Indies, and the freight is paid on the lumber. The lumber is sold on an s.i.f. basis. Now why there should be any different conditions with any one shipper against the practice in the way of doing business there for years, I do not know.

Mr. HANSON: I agree with you that you must apply the rule universally, but I disagree because you are applying different rules to different services.

Mr. DOHERTY: And you have different rules as to each one; and one can be compared with the other.

Mr. HANSON: Is there any other reason than the one which you gave Mr. O'Hara in your letter the other day?

Mr. DOHERTY: No, no other reason.

Sir HENRY THORNTON: What they thought was that if we were more lenient and more liberal in the matter of the collection of charges, we could promote more business?

Mr. HANSON: That is my whole idea, and I would like that to be looked into more thoroughly.

Sir HENRY THORNTON: As Mr. Doherty has explained, this is a position which has arisen in the last two or three weeks. I can see that if this is substantiated and we find that by this or any other device we can promote trade, and still be sure of our money we will adopt it.

Mr. CANTLEY: What are you getting on lumber to the Barbadoes?

Mr. DOHERTY: I think it is \$12 a thousand.

Mr. CANTLEY: You can get your money where you land your material?

Mr. DOHERTY: You know West Indies conditions.

Mr. CANTLEY: I know that I have never had any difficulty in collecting on my freight, and I have carried cargo after cargo to Barbadoes at \$9, and got my money after I got there. Now you say you are compelling the shipper to pre-pay the freight at the ship side, and he is out two-thirds of the value of the lumber at the very start.

Sir HENRY THORNTON: The question is very simple. Here is a new condition which has arisen, and as I say, if there is any way by which we can promote more traffic without injuring ourselves or endangering ourselves with a loss we are going after the trade.

Mr. CANTLEY: There is a condition right now.

Sir HENRY THORNTON: Then what more do you want?

Mr. HANSON: I was just referring to the reasons given by Mr. Doherty for requiring pre-payment on the shipments to the West Indies, and I submit that you will never extend your trade in that way.

Sir HENRY THORNTON: That is a good reason too, but if it is out-weighed by any other reason, we will unhesitatingly drop it.

Mr. GEARY: How does it affect it?

Mr. HANSON: He ships his goods and does not get paid for them until after delivering; and in addition to that he has to pay the freight. A company which has to do that will drop that trade.

Sir HENRY THORNTON: But remember, as far as I know, this is the condition which has never arisen as an acute matter until within the last two or three weeks. The minute a position becomes acute you have to examine into your policy and if it is wrong you change it.

Mr. GEARY: In your report you show a loss of some \$200,000 in operating, some \$2,000,000 odd in depreciation—

Mr. CANTLEY: Before going into the accounts, would you be good enough to tell me what became of the vessel which was ashore in Hudson Bay last year?

Sir HENRY THORNTON: She was salvaged and is in Halifax now.

Mr. CANTLEY: What is her name?

Sir HENRY THORNTON: The Raider.

Mr. CANTLEY: What are you going to do with her?

Sir HENRY THORNTON: Sell her, scrap her. Would you like to buy her, Colonel?

Mr. CANTLEY: No, I would not like to buy her. Have you got an offer for the three ships that you advertised for offers, on the Pacific Coast?

Sir HENRY THORNTON: Yes, we have had several offers.

Mr. CANTLEY: Have you sold them?

Sir HENRY THORNTON: No.

Mr. CANTLEY: Would you care to tell us the price which you have been offered?

Sir HENRY THORNTON: No, I would rather not, but we are going to reject all the bids because they are unsatisfactory.

Mr. CANTLEY: Are you still going to sell them?

Sir HENRY THORNTON: We are in negotiation with respect to three other vessels, and I think what we will do will be to reject all bids and ask for bids on the whole six, either for one or for the whole or for any proportion of them.

Mr. CANTLEY: Are the other three on the Pacific coast at the present time?

Mr. DOHERTY: No, they are on the Atlantic coast.

Hon. Mr. DUNNING: Colonel Cantley, would not this be a good place to put in the statement which you held over from yesterday, so as to have it in the record?

Mr. CANTLEY: Yes.

CANADIAN GOVERNMENT MERCHANT MARINE, LIMITED

LIST OF SHIPS SOLD

Name of Ship	Deadweight Tonnage	Date Sold	Sale Price
T. J. Drummond.....	3,501	Aug. 24, 1923	\$110,000 00
J. A. McKee.....	3,575	" " "	\$110,000 00
Canadian Pathfinder.....	3,640	Oct. 12, 1925	\$ 50,000 00
Canadian Engineer.....	3,679	" " "	\$ 50,000 00
Sheba.....	3,400	Oct. 3, 1923	£ 17,000 less 4% Commission.
Canadian Miner.....	2,778	Mar. 20, 1924	£ 20,000 cash.
Canadian Sealer.....	2,777	" " "	£ 20,000 cash.
Canadian Logger.....	3,839	April 30, 1924	\$100,000 00
Canadian Adventurer.....	3,408	Oct. 19, 1925	\$ 40,000 00
Canadian Sailor.....	3,357	" " "	\$ 40,000 00
Canadian Signaller.....	3,975	" " "	\$ 40,000 00
Canadian Sower.....	3,406	" " "	\$ 40,000 00
Canadian Trader.....	3,341	" " "	\$ 40,000 00
Canadian Warrior.....	3,995	" " "	\$ 40,000 00
Canadian Harvester.....	4,000	Feb. 13, 1926	\$ 50,000 00
Canadian Gunner.....	3,978	Nov. 23, 1926	\$ 50,000 00
Canadian Settler.....	4,918	Dec. 17, 1926	£ 17,750 cash. Less 2½% Commission."

Mr. CANTLEY: I want some information in regard to that ship at Halifax, and what you are going to do with that.

Sir HENRY THORNTON: The one which was ashore in the Hudson Bay?

Hon. Mr. DUNNING: It was not ashore within a thousand miles of the Hudson Bay. She was on her way out.

Sir HENRY THORNTON: That ship was salvaged and brought back to Halifax, and will be scrapped.

Mr. CANTLEY: Have you practically written her value off?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: And you do not want to give any information regarding the boats on the other side?

Sir HENRY THORNTON: Not in public, I will tell you personally anything you want to know.

Mr. GEARY: Looking at your report, among the losses you have Lost Interest on Government Advances?

Sir HENRY THORNTON: That is right.

Mr. GEARY: What is the compensation for that? What compensating features are there, or are you thinking more of the reaction on the National Railway System?

Sir HENRY THORNTON: It has no relation to the National Railway System. Oh, I get you now. The utility of the Canadian Government Merchant Marine has to be looked at, first, from the point of view of what traffic it brings in itself to the Canadian National Railways; and secondly, and probably more important, how much assistance does it render manufacturers and producers in Canada in the marketing of their products? It means about a million and one-half dollars so far as the railway is concerned. Now when you come to the other aspect, of its usefulness to the nation, I would say that probably its greatest usefulness has been to lumber producers on the Pacific coast. Mr. Stevens probably knows as much or more than I do about that. We have been told by the lumber trade in British Columbia, that our Ocean Services have been of great value to them in the marketing of their particular produce, the service which we have lately inaugurated with the approval of the Ministry of Trade and Commerce to South America have been extremely satisfactory; we are getting full cargoes in both directions. We are getting quite good cargoes in both directions.

I think that is all of material advantage to our producers. The inter-coastal service through the Panama Canal, both east and west, has been also quite satisfactory, so that I should say that the advantage of the Government Merchant Marine has been of particular importance to the newly inaugurated South American trade, and to the lumber trade on the Pacific coast, and to probably Australia and New Zealand. I am speaking now from the point of view of general advantage in promoting Canadian trade.

Hon. Mr. STEVENS: Are you operating now to Australia?

Sir HENRY THORNTON: No, we have abandoned that. I was speaking of previous years when there was considerable of it.

Mr. GEARY: You did not think it was worth while?

Sir HENRY THORNTON: I think it is particularly advantageous to the British Columbia lumber trade and the South American trade.

Mr. POWER: Was there any special advantage given to the British Columbia lumber trade in the way of lower freights?

Sir HENRY THORNTON: No, we had the usual ocean rate, but it gives them a facility and service which they might not get in any other way.

Mr. POWER: Are you operating any of those particular lines at a loss?

Sir HENRY THORNTON: That I think will come up when we consider each trade route.

Mr. CANTLEY: Are you insisting upon them pre-paying the charges on that route?

Mr. DOHERTY: The lumber charges are collected usually at this end.

Sir HENRY THORNTON: We have discovered at least one route where the ships are not needed. We have been losing \$72,000 a year on our Cardiff service, and we are just abandoning that service; and the contracts which we have are being taken over by probably the Donaldson and another line. We have abandoned that service for the reason that it is unprofitable and unnecessary.

Mr. GEARY: Does the fact that you are in business tend to stabilize rates?

Sir HENRY THORNTON: Not on the North Atlantic.

Mr. GEARY: It does not tend to keep down rates?

Sir HENRY THORNTON: I do not think we are a sufficient factor to have any material influence on the standard of rates.

Mr. CANTLEY: You have not the type of boats which can compete on the North Atlantic.

Sir HENRY THORNTON: Colonel Cantley is quite right in that.

Mr. GEARY: Are you looking forward to the time when you can confine your operations to the places where you are of advantage?

Sir HENRY THORNTON: We are trying to rearrange our services so as to employ them on such routes as will be both remunerative and strategic, economic usefulness to Canadian producers.

Mr. CANTLEY: And where facilities to-day are not all that may be desired, so far as the export trade of this country is concerned?

Sir HENRY THORNTON: Yes, that is true.

Mr. CANTLEY: That is the fundamental reason, in my judgment, for continuing the operation of this fleet at all.

Sir HENRY THORNTON: Yes, it certainly is not attractive from the financial point of view; therefore the only reason may be the economic advantage to the Dominion of Canada.

Hon. Mr. DUNNING: Of course you could do better if you had a better type of ships?

Sir HENRY THORNTON: Oh, certainly. You will understand that these ships were built during the war, under great stress, and at very considerable expense, to meet a certain necessity which at that time existed and which has since disappeared.

Mr. GEARY: I gather from your answers that you have these factors well in mind.

Sir HENRY THORNTON: Oh yes, quite.

Mr. GEARY: These ships do not last forever, and you may replace them or you may not?

Hon. Mr. DUNNING: A large number have been scrapped.

Mr. GEARY: I understand that. It may be an economic proposition to scrap some of them.

Sir HENRY THORNTON: Yes. This thing is not running wild, nor is it allowed to run its own course. We are trying each year to meet the conditions.

Mr. GEARY: Many a line will drop its business because it has not capital behind it. You have, so to speak, unlimited capital behind it. It would not be wise just to go on with it merely because you have started?

Sir HENRY THORNTON: Not just for the fun of doing it. That is quite right.

Mr. POWER: Have you in mind the probable deficit from the West Indian lines in the next three or four years?

Sir HENRY THORNTON: Oh yes.

Hon. Mr. DUNNING: Just before we adjourn, I think Mr. Geary asked me last night to try and arrange that the sittings of this Committee would not conflict with that of the Committee on Railways, Canals and Telegraph Lines. That Committee, I understand, is to meet on Friday. In that case, this Committee will not meet on Friday.

The CHAIRMAN: This Committee stands adjourned until 11 o'clock tomorrow.

The Committee adjourned until Thursday, May 2, 1929, at 11 a.m.

SESSION 1929

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8—THURSDAY, 2nd MAY, 1929

WITNESSES:

Sir Henry W Thornton, K.B.E., President, Canadian National Railways.

Mr. T. H. Cooper, General Auditor, Canadian National Railways.

Mr. D. O. Wood, Acting General Manager, Canadian Government Merchant Marine.

Mr. J. P. Doherty, Traffic Manager, Canadian Government Merchant Marine.

Mr. F. W. Fairweather, Bureau of Economics, Canadian National Railways.

Mr. S. J. Hungerford, Vice-President, Operation and Construction Department, Canadian National Railways.

OTTAWA

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PRINTER TO THE KING'S MOST EXCELLENT MAJESTY

1929

MINUTES OF PROCEEDINGS

ROOM 375, HOUSE OF COMMONS,
THURSDAY, May 2, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

Members present: Messrs. Bell (St. Antoine), Cantley, Dunning, Geary, Gray, Hanson, Jelliff, Jenkins, McLean (Melfort), Milne, Power, Stevens.

In attendance: Sir Henry Thornton, with members of his staff; also Mr. R. A. C. Henry, Deputy Minister of the Department of Railways and Canals.

TENTH ANNUAL REPORT OF THE CANADIAN GOVERNMENT MERCHANT MARINE, LIMITED

Discussion took place as to the policy that should be pursued by the Merchant Marine.

The Balance Sheet, as contained on pages 6 and 7 of the Report, was considered, item by item.

The Operating Account, as shown on page 8 of the Report, was reviewed, and Sir Henry Thornton made a general statement respecting voyages completed.

The Deficit Account, page 9 of the Report, was reviewed briefly.

On motion of Mr. Hanson,—

Resolved,—That the Tenth Annual Report of the Canadian Government Merchant Marine, Limited, be concurred in.

The Committee took recess at 1 p.m.

The Committee re-convened at 4 p.m. Sir Eugene Fiset, the Chairman, presided.

Members present: Messrs. Cantley, Chaplin, Geary, Gray, Jelliff, Jenkins, McLean (Melfort), Milne, Power, Stevens.

In attendance: Sir Henry Thornton, with members of his staff; also Mr. R. A. C. Henry, Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

ESTIMATES, 1929-30. CANADIAN NATIONAL RAILWAYS, CANADIAN NATIONAL STEAM-SHIPS AND MARITIME FREIGHT RATES ACT. VOTES 336, 337, 338, 339 AND 340

Copies of a book indicating the financial requirement of the Canadian National Railways for the year ending December 31, 1929, were distributed to the members present, together with copies of the Estimates, Items 336 to 340.

After discussion, the several items were agreed to.

The Committee adjourned at 5.40 p.m., to meet again at the call of the Chair.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

COMMITTEE ROOM 375,

HOUSE OF COMMONS,

THURSDAY, May 2, 1929.

The Select Standing Committee on Railways and Shipping met at 11 o'clock, a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: Gentlemen, we had started with a consideration of the balance sheet.

Sir HENRY THORNTON: May I just make one statement? The question was asked with respect to the value of the Canadian Government Merchant Marine to the trade of Canada. I have some figures here which are interesting in that connection. The value of the goods handled on our ships last year amounted to \$159,000,000, of which \$112,000,000 was export, and \$39,600,000 was import traffic, and \$7,200,000 was inter-coastal traffic. That is of interest in connection with the general question asked.

Mr. GEARY: They tell me there is sometimes difficulty in shipping wheat from Canadian ports because the bottoms do not come to the Canadian ports as readily as they go, for instance, to New York. There they pick up a cargo more readily, and for that reason wheat is sometimes diverted to New York.

Sir HENRY THORNTON: No doubt about that.

Mr. GEARY: Would these ships remove that difficulty?

Sir HENRY THORNTON: They would not be a drop in the bucket.

Mr. GEARY: The only point I had in mind was that as long as it exercises some regulatory power the Canadian Government Merchant Marine would be justified in that alone.

Sir HENRY THORNTON: The outstanding fact that we carried Canadian products to the value of \$112,000,000 exported last year.

Mr. McLEAN (Melfort): Largely package freight, I suppose.

Mr. WOOD: Package freight and lumber, with a certain amount of grain, of course.

Mr. JELLIFF: I asked yesterday about the tonnage carried last year. You said you would have that this morning.

Mr. WOOD: We can give you the total tonnage and also the details.

Mr. JELLIFF: The total tonnage will do.

Sir HENRY THORNTON: The total tonnage was 1,307,000 tons cargo.

Mr. CANTLEY: How is your South American service turning out?

Sir HENRY THORNTON: Very well. We are getting now practically full cargoes.

Mr. CANTLEY: Both ways?

Mr. WOOD: Yes, both ways. Of course, the north bound traffic is mostly a matter of grain and flax and stuff like that.

Sir HENRY THORNTON: That South American service has been very satisfactory—surprisingly so.

Mr. CANTLEY: Where are they carrying the north bound cargoes?

Mr. WOOD: Flaxseed goes mostly to New York and Philadelphia, and we are offered corn for Halifax and St. John.

Mr. JELLIFF: I asked that question because you gave three causes for the falling off last year, and I wanted to see if we could get the relative importance of those three causes.

Sir HENRY THORNTON: We carried last year a greater tonnage but at a lower rate; the tonnage increased but the revenue decreased because of those lower rates.

Mr. CANTLEY: Are you getting a fair rate from the South American service?

Mr. WOOD: Fair, but some of it could be a little better.

Mr. CANTLEY: Nothing is so good that it can not be better, but are you practically breaking even?

Mr. WOOD: Not quite, but nearly so.

Hon. Mr. STEVENS: Has it been demonstrated to your satisfaction that the government operated merchant marine cannot successfully compete with the world shipping companies—I mean with shipping in the world generally?

Sir HENRY THORNTON: In answering that question you have to take into consideration the character of the tools with which we are working.

Hon. Mr. STEVENS: I mean, of course, with the tools we have.

Sir HENRY THORNTON: Of course we cannot. This is largely because of the character of our ships, which were not built for this particular purpose. They are slow and have small tonnage.

Hon. Mr. STEVENS: Then the next consideration which strikes me as one which should engage attention is this: having in mind the desire to find new markets and to extend markets where perhaps there is not at present a trade existing, and the service from private companies, would it not be better to direct the major portion of the efforts of the Canadian Merchant Marine in conjunction, say, with the Department of Trade and Commerce to a development of new world markets?

Sir HENRY THORNTON: That is exactly what we are doing. This new South American service is a good example.

Hon. Mr. STEVENS: Let me say before you go on that it would not be expected—cannot be expected—that on that sort of work you could get a return, that is, a profitable return.

Sir HENRY THORNTON: That is a perfectly sound statement. That is perfectly true. That is what we are trying to accomplish.

Hon. Mr. STEVENS: How about co-operation? I am not suggesting that there is anything in the nature of friction, because I think the Hon. Mr. Malcolm is a gentleman who will work harmoniously with you, but is there any positive contact intelligently being applied to the energies of both the Department of Trade and Commerce and the Merchant Marine?

Sir HENRY THORNTON: The answer is yes. With the Minister of Railways and Canals (Hon. Mr. Dunning), the Minister of Trade and Commerce (Hon. Mr. Malcolm), and ourselves, the work is being carried on in close contact; we are constantly exchanging information and having meetings with a view to accomplishing the very thing you have outlined. I should say that the relationship and the co-operative position between my own Minister (Hon. Mr. Dunning), the Minister of Trade and Commerce (Hon. Mr. Malcolm), and the Merchant Marine is all that anyone could wish.

Hon. Mr. STEVENS: And your officials and the officials of the Department of Trade and Commerce—I am not suggesting that there is any ill-feeling, but there is a vast difference between a sort of negative contact and active co-operation, is there not?

Sir HENRY THORNTON: There is not only an active co-operation, but a feeling of what I would describe as enthusiastic and friendly co-operation.

Hon. Mr. STEVENS: That is good. That is the way it ought to be.

Mr. GEARY: I do not know whether this should go on the record or not. You have a lot of ships, quite a fleet, and when they were built and put into commission they were serving a pretty useful purpose and at any rate carried the opinion at the time that it was a necessary purpose. These ships are growing old and are becoming more obsolescent all the time; they cannot take the cargoes or take them with the same despatch that their competitors can, very largely. I would be interested in knowing whether you contemplate carrying those ships on uneconomically until they have to be scrapped and replacing them and building the fleet up with new and modern ships, or has that come into your calculations as yet, or not?

Sir HENRY THORNTON: Well, that is a general condition which is becoming each year more and more pressing. This is as the Minister wishes.

Hon. Mr. STEVENS: There should not be any objection to it.

Hon. Mr. DUNNING: I do not know of any objection.

Sir HENRY THORNTON: That very question of policy is one which is under discussion between the Minister of Railways, the Minister of Trade and Commerce, and myself. We are all of us seized with that situation. Does that answer your question, Colonel.

Mr. GEARY: Yes, Sir Henry. I think you are faced with these ships and their replacement, and it is quite a large question, I should think.

Sir HENRY THORNTON: Yes, it is.

Mr. CANTLEY: I judge it is not the intention of the department to replace these ships, and I would call your attention to what I have called your attention to in years past in fairly vigorous terms, that is in regard to the smaller type of tonnage. You have boats down to less than 5,000 tons. You cannot help but lose money every year. Why not dispose of them and write them off?

Sir HENRY THORNTON: That is what we are doing as opportunity presents.

Mr. CANTLEY: They are saleable at some price, and the quicker we take that price, whatever it may be, and write them off and get clear of the liability, because there is liability attached to them every day, the better.

Sir HENRY THORNTON: I take it that your suggestion is that we should immediately scrap these which I would call inefficient ships, and get rid of them?

Mr. CANTLEY: You should sell them. You have sold some.

Sir HENRY THORNTON: That is a part of the general question of policy that is under consideration, and my answer to Colonel Geary would be substantially the answer to you.

Hon. Mr. DUNNING: I suppose, Sir Henry, that you as well as myself would like the Committee to express any view they have in regard to the desirability of staying in this business or going out of it. Should we get out of it altogether?

Hon. Mr. STEVENS: Taking, for instance, the Hudson Bay route which is going to be an important thing almost immediately. I assume there has been no arrangement with shipping companies to immediately handle this shipping. Could you not dedicate these ships to that purpose?

Sir HENRY THORNTON: Dedicate is a peculiar word.

Hon. Mr. STEVENS: Say consecrate.

Hon. Mr. DUNNING: My idea is that that route will require another class of ships, as Colonel Cantley has put it. I consider it would not be very fair to the Hudson Bay route to use these boats.

Hon. Mr. STEVENS: I was not referring now to the cost of operating those ships, but rather to demonstrate the feasibility of the route.

Hon. Mr. DUNNING: So far as that demonstration is concerned, our department of Railways and Canals' ships carrying supplies have gone in and out of there and we know what they have done, and there is no trouble about that.

Hon. Mr. STEVENS: But they have not gone in there loading and unloading cargoes back and forth, and establishing contact with the old land. I would suggest to the Minister whether it could not be very well started by taking some of these ships and putting them on there. I realize that at the outset there will be a great deal of unnecessary loss, which will vanish when the business becomes established.

Hon. Mr. DUNNING: Perhaps we are talking about two different things. From the standpoint of the mercantile practicability of the route for wheat, I think these boats would not demonstrate anything more than that it can be done, because you cannot haul wheat in a two or a four thousand ton boat.

Hon. Mr. STEVENS: You have over twenty from eight to ten thousand tons.

Hon. Mr. DUNNING: And those are the very boats which Sir Henry Thornton is making the best use of now. I would be very glad to remember your suggestion. We have plenty of time, in any case.

Mr. GEARY: If you are to take advantage of the season up there, you have to move yourself pretty quickly.

Hon. Mr. DUNNING: If the experience of two years which indicates about five months' navigation, proves general in its application, of course it is a question of moving ourselves fairly rapidly after it once begins to arrive at Churchill. There is no doubt of that.

Mr. CANTLEY: I have not quite finished, and I want to call your attention to this. You have twelve boats on this list in the four and five thousand class. Now those boats cannot possibly live and you have to take a loss on them, and the quicker you realize that and dispose of those boats, the better. They are saleable at some price.

Sir HENRY THORNTON: Yes, that is quite true.

Mr. CANTLEY: And in addition to that you have twenty boats of eight thousand tons and two boats of ten thousand-tons. Some of them I will admit are well employed, for instance, in that South American trade and possibly in opening up some other of the services; but I doubt if more than half of them are usefully employed. And with that purpose in view, the time will soon come when some if not all of those eight thousand ton boats will have to be or should be disposed of by reason of their unsuitability and their inability to compete with rival boats in the same trade. Now what is the use of our carrying these on and continuing to lose money and lose interest?

Sir HENRY THORNTON: Your question relates to the whole future policy with respect to the maintenance of the Canadian Government Merchant Marine.

Mr. CANTLEY: And particularly to the question of the disposal of those small boats.

Sir HENRY THORNTON: And that all involves the question of what we are going to do with the Canadian Government Merchant Marine. The only answer I can give to the Committee is that that question is now engaging the serious attention of my own minister and the Minister of Trade and Commerce and myself, to see if we can formulate a policy.

Mr. CANTLEY: Have you sold any of these small boats in the last few months?

Sir HENRY THORNTON: Have you not got a list, Colonel?

Mr. CANTLEY: Yes, but I returned it yesterday.

Sir HENRY THORNTON: The answer is that we have not sold any in the last ten or twelve months.

Mr. CANTLEY: You have some on the Pacific coast, for sale?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: And you have received some tenders?

Sir HENRY THORNTON: Yes, but they were unsatisfactory.

Mr. CANTLEY: Are you still going to hold them on the Pacific coast, when it costs you money to maintain them every day?

Sir HENRY THORNTON: No. We have six ships to-day that we are offering for sale, three on the Pacific coast, but the tenders were unsatisfactory. We are now going to offer six for tenders.

Mr. CANTLEY: That is only one-half of the number that I think you ought to get clear of, no matter what you get out of them.

Sir HENRY THORNTON: That is what we are doing; we are selling them as fast as we can. We do not want to give them away; if we do we will have an uproar in the House of Commons that we are chucking them away. We are going to get the biggest price we can for each one of those ships, even if we have to wait a little while to get it. I think that is what we will have to do.

Mr. CANTLEY: I do not want to press the matter further.

Sir HENRY THORNTON: In principle, there is no difference between what I have said and what you have said, Colonel Cantley.

Mr. CANTLEY: Except that in the one case you would get action, and you are not getting anything done.

Sir HENRY THORNTON: In the one case you would move with a greater degree of rapidity than I think the case requires.

Mr. CANTLEY: In the one case, I would be moving and you are not.

Sir HENRY THORNTON: Yes, I think we are moving.

Mr. McLEAN (Melfort): Supposing you were handling the Government Merchant Marine as your own private concern, and could secure sufficient money, what would you think of disposing of a percentage of these boats? You have about thirty-nine of them outside of those in the West Indies service. What would you think of disposing of ten or twelve of them this year and putting in two or three up-to-date freighters in their place?

Sir HENRY THORNTON: Looking at it as a private enterprise, divorced from the National Railway and the Government and everything else, in the first place if it were a private enterprise we would not be in business very long, under present conditions. Personally the thing to do would be to get rid of the inefficient ships and replace them with more efficient ships, under the present conditions. Your question is a hypothetical one, and if the Canadian Government Merchant Marine were a private company, the only thing to do would be to get better ships or go out of business.

Hon. Mr. DUNNING: As a matter of fact, if it were a private company it would have to go out of business. It would not last thirty seconds.

Mr. McLEAN (Melfort): What would you think of the suggestion to dispose of a certain percentage of them and replace them with up-to-date vessels? To-day the race is to the swift.

Sir HENRY THORNTON: The answer to that is that we are disposing of these smaller ships as rapidly as circumstances permit. Whether they should be replaced now by more modern ships in something which is involved in this whole matter of the future of the Canadian Government Merchant Marine which Geary raised, and with respect to which I have no answer to give to-day, as I do not know what we ought to do.

Mr. McLEAN (Melfort): You have invested a certain amount of money in organization and experience and in losses which someone would have to spend in one way or another in starting in such a business. It seems to me it would be a pity to sacrifice that by going out of business.

Sir HENRY THORNTON: Those are all factors which have to be considered in connection with the Canadian Government Merchant Marine.

Hon. Mr. DUNNING: And it should not be forgotten that our West Indies policy was in the direction which you have indicated, providing new and better tonnage.

Mr. McLEAN (Melfort): I appreciate that.

Mr. GEARY: One needs to see it.

Mr. McLEAN (Melfort): You have made a big start, anyway. In reference to the Hudson Bay service, the factor of speed must be quite important in putting a useful service in there. For instance, you would meet the possibility of poor weather conditions and the possibility of ice towards the close of navigation, where small, slow boats might be in considerable danger, whereas up-to-date vessels would have a wider margin of safety.

Sir HENRY THORNTON: I should think that was unquestionably true, although I am not experienced in navigation.

Mr. McLEAN (Melfort): It seems to me that putting these smaller boats on, even as an experimental proposition, might injure the route a good deal because they might be unsafe.

Hon. Mr. STEVENS: I do not suggest the smaller boats, but the larger boats.

Sir HENRY THORNTON: The larger boats which might conceivably be put in this place are at present used to advantage in other services.

Mr. McLEAN (Melfort): I think it would take fairly fast boats to usefully demonstrate that route.

Hon. Mr. DUNNING: There is just one factor. Last summer the department had to secure quite a lot of lumber from British Columbia. Through the good offices of the Merchant Marine acting as agents for the department, a tramp boat was chartered and loaded three million feet of lumber at Vancouver, sailed around to the Panama and around through the Hudson Straits and she was about of eleven knots speed, if any memory serves me right,—that is subject to correction. I did have a rough analysis made, and the cost of taking that lumber in that way was cheaper than if it has been hauled in by rail, if the rail had been in. That is one interesting angle of the commercial experimental possibilities. We were not able to do that with a Merchant Marine ship at all, because the Merchant Marine ships are all profitably employed otherwise. They were employed in such a manner at that time that they could not be taken off.

Mr. GEARY: Something has been said about a reinforced ship.

Hon. Mr. DUNNING: We have not had any reinforced ships in there at all. The ordinary tramp vessel has taken in our stuff.

Hon. Mr. STEVENS: There is just one point to which I was trying to direct attention. It is not the question of types of ships or anything else; you are shipping on a new route.

Hon. Mr. DUNNING: You mean the commercial experiment, Mr. Stevens?

Hon. Mr. STEVENS: Exactly. You have a new route there. I thought that you might take a certain number of your ships—I used the word “dedicate” before—and dedicate them; then I used the word “consecrate” later,—putting them on that route, because unless you have arrangements with some steamship companies it will take some time to get the shipping world interested in that.

Hon. Mr. DUNNING: Your object and mine are exactly the same, Mr. Stevens.

Hon. Mr. STEVENS: I want to ensure that the route is operative from the moment that the harbour facilities are ready to handle freight.

Hon. Mr. DUNNING: I have a very strong personal interest in that also.

Sir HENRY THORNTON: You want to be sure the route has a fair run for its money.

Hon. Mr. DUNNING: The establishment by some agency through some means of what would constitute fair ocean and insurance rates from Churchill.

Hon. Mr. STEVENS: Absolutely. For instance, if you are going out on the open market, assuming that you could ship a cargo of grain, and you just simply go on the world market and invite shipping there, your insurance rates and your shipping rates are necessarily going to be very high for the commencement.

Hon. Mr. DUNNING: Of course, there are other ways of accomplishing that other than taking unsuitable ships. However, I can only say this that what you are driving at is very much in the mind of the department, and of the government, and when that port is ready to ship grain there will be means found to have boats there to carry it; there must be. Most ports, like Topsy, have grown throughout the centuries. Here is a port that is going to start shipping grain on a given day, and shipping it, in all probability, in considerable quantities.

Hon. Mr. STEVENS: I am just taking now a purely hypothetical case; assuming what I have suggested is no good, not to be entertained—

Hon. Mr. DUNNING: I did not say that.

Hon. Mr. STEVENS: Just assume that. Here are freighters owned by shipping companies; they are not going to go into Churchill at the commencement and experiment on that route at a rate that is going to show advantageously for Churchill. That is certain, is it not?

Hon. Mr. DUNNING: No one would expect that.

Hon. Mr. STEVENS: Then in order to make a fair test you have got to make an estimate of subsidy for them.

Hon. Mr. DUNNING: No.

Hon. Mr. STEVENS: Or, in some way or other, make up their anticipated loss in the initial stages—

Hon. Mr. DUNNING: In getting ships to go in there at the present time, we, of course, charter them on a time charter. The owners, of course, do not give us a rate on the commodities. But it is possible, as Colonel Cantley knows, to engage ships on a time charter, and, of course, that is the way we have been doing.

Hon. Mr. STEVENS: Do not forget this; if you put on modern ships, as I have suggested, irrespective of the cost of operation, to carry grain out of that port, and if we were doing it from the standpoint of practical navigation successfully, you would sooner or later have the competition of other shipping companies, just as soon as they see you were functioning. Show them that you can function, irrespective of the cost, and then you would mighty soon have the shipping world in there competing with you on the question of price.

Hon. Mr. DUNNING: That is worth considering, although I am rather staggered at the possible rates that would develop from the use of those small ships.

Mr. CANTLEY: Mr. Minister, I understand Mr. Stevens' suggestion to be that you should show the way by the employment of some of the Merchant Marine ships, some of the eight thousand or ten thousand ton class of ships which, from the observation you made, are not suitable for that trade; is that correct?

Hon. Mr. DUNNING: I would not say they are not suitable. I would say they are not the most economical by any means, that if you base your rate upon the cost of operating one of these eight thousand ton ships from Churchill across the North Atlantic you will not get a very good result.

Mr. CANTLEY: Well, against that I would point out this, that a large proportion of the grain traffic from Montreal is carried on to-day in boats of eight thousand and ten thousand ton.

Hon. Mr. DUNNING: About ten thousand tons average.

Mr. CANTLEY: And that is the traffic that makes the price, roughly, on carrying grain. I am not referring to liners. A certain proportion will take it, but the great bulk of the world's traffic in grain is the deadweight traffic. Take your grain trade out of Montreal, the great bulk of it is carried by tramp vessels of that character. If your traffic conditions through the Hudson Straits will not permit of the employment of that type of ship, you will then have to build a superior type of ship along constructive lines both as to hull and equipment of the Newfoundland sealers. If you are going to employ vessels of that class their cost will be fully 75 per cent greater than the type of vessel I am referring to. It will have to be demonstrated, and it can only be demonstrated through experience, as to which class of ships can carry on that trade. Mr. Stevens' suggestion is—and I think it is a good one—that you put on a few of these ships. I made the suggestion a few years ago. I suggested that if you put ten ships in there and got through safely I had nothing more to say about the practicability of the whole route.

Hon. Mr. DUNNING: I can assure you, on the basis of the information that we have now, that we will do that, and I will say ten ordinary ships.

Mr. CANTLEY: I am sorry I cannot accept your assurance. The real test is the actual work. You have your opinion, which is founded on a lot of information, and I have my opinion.

Hon. Mr. DUNNING: It is founded on the ships that have been in there and out in the last few years actually carrying cargoes.

Mr. CANTLEY: Some of them went in there and never came out.

Hon. Mr. DUNNING: Which one?

Mr. CANTLEY: Two of them.

Hon. Mr. DUNNING: Which one?

Mr. CANTLEY: Two of them that Mr. Cochrane sent out. I have forgotten the name now.

Hon. Mr. DUNNING: They went ashore on the mud in the Nelson river.

Mr. CANTLEY: They did get in, in one case, and never came out.

Sir HENRY THORNTON: The answer to that is, that there are no ships of the Canadian Government Merchant Marine of suitable size available for this service without taking them off routes on which they are now profitably engaged. The suggestion is a good one, and I would not hesitate to do it at all if the ships were available.

Mr. CANTLEY: I will submit this, that if you will give me the information to enable me to pursue it, I think I could find in the list ships that can be put on that service without your losing any money.

Hon. Mr. DUNNING: I do not want any misunderstanding. I am not rejecting the idea. I can assure you of this, that in some way shipping will be provided to carry cargoes. One of the possible ways is the suggestion put forward by Mr. Stevens, which must be examined, of course, and, in fact, is under examination. Naturally our minds are on this problem, but we will have to see that it will conform to the general economics of the whole situation. It is just a mat-

ter of finding the best way to accomplish the thing which both Mr. Stevens and I have in mind, that is, that this route should get a fair test, not a loaded test, not a test which introduces extraneous factors which are favourable to the route, or on the other hand a test which by its very nature introduces unfavourable factors. I think that Mr. Stevens will agree that that is desirable.

Hon. Mr. STEVENS: I quite agree.

Mr. McLEAN (Melfort): I agree with the Minister entirely in that, Mr. Chairman. I want to see all the favourable factors introduced in the opening of a new route like this, because there are sufficient handicaps that we have not yet overcome, and, if we can do it, we ought to give it a little leeway. We ought to put in all the favourable conditions we can to start the route. There are factors such as lack of experience in navigation, and so forth. Sir Henry, perhaps you will be good enough to give me information on two points. One is as to the relative speed of your present shipping.

Sir HENRY THORNTON: The average speed of the present ships?

Mr. McLEAN (Melfort): Of the various classes, the tens, eights and fives.

Mr. DOHERTY: About nine and one-half knots; the smaller ones are slightly slower, perhaps eight and one-half to nine knots.

Mr. McLEAN (Melfort): The small ones are eight and one-half knots?

Mr. DOHERTY: About eight and one-half to nine knots, and the others nine to nine and one-half knots. Then the oil burners, such as the *Constructor*, will probably do eleven knots.

Mr. McLEAN (Melfort): That is the ten?

Mr. DOHERTY: That is the ten, yes. They will do about eleven knots, I think.

Mr. McLEAN (Melfort): Without regular steaming.

Mr. DOHERTY: Yes, in ordinary fair weather conditions.

Mr. McLEAN (Melfort): Sir Henry, would you say that your ships are so constructed and equipped that they can be run as economically as modern vessels that you would build to-day, if you were going into the market to-day?

Sir HENRY THORNTON: No, they are not.

Mr. McLEAN (Melfort): What percentage of increased cost is entailed in the operating of your ships on account of lack of modern construction and equipment?

Sir HENRY THORNTON: I certainly cannot answer that off-hand. Can you, Mr. Doherty?

Mr. DOHERTY: No, sir, I cannot.

Hon. Mr. STEVENS: I wonder, could I ask Mr. Doherty, or one of your staff here; there has been a great deal said about these ships—I am speaking of the eight thousand and ten thousand ton class—being so hopelessly inferior that they cannot be operated in any economical way. Just in what respect are they inferior to the normal 8,000 or 10,000 ton freighters?

Sir HENRY THORNTON: Before that question is answered, I do not want anyone to get the impression that they are hopelessly inferior.

Hon. Mr. STEVENS: That is the impression we get. Every time we ask a question it is given back to us that there is no hope with these ships, that these ships by construction and equipment are very inferior.

Sir HENRY THORNTON: They are not modern ships, and are not as susceptible to equal economic operation as a modern ship, but I certainly do not want to give the impression that these ships are no good.

Hon. Mr. STEVENS: We know that they are not passenger ships, nor liners; they are just freighters—plain ordinary freighters.

Mr. DOHERTY: The modern freight steamer built for the tramping trade is so equipped that she can handle cargoes better than we can with our vessels which are not built essentially for such a trade.

Hon. Mr. STEVENS: You mean, for instance, vessels of 'tween deck construction.

Mr. DOHERTY: Yes. These steamers have been operating in a certain trade, but we find that their slow speed operates against the possibility of our getting a paying cargo.

Hon. Mr. STEVENS: Take an ordinary freighter—I see hundreds of them each year—such as are carrying cargoes of grain and lumber from Vancouver, or such as stop at Montreal; what speed do they make?

Mr. DOHERTY: About the same speed as our steamers, except that the more modern tramp steamers will make greater speed, but the general run—

Hon. Mr. STEVENS: I am speaking of the general run.

Mr. DOHERTY: The speeds will be about the same.

Hon. Mr. STEVENS: Of course they will.

Sir HENRY THORNTON: Another thing which I think has had some effect—Mr. Doherty can correct me if I am wrong—is that since the war there has been a very considerable ocean tonnage built of a very modern character, with respect to which we come into competition, and one of the effects of that has been to put out of business a very large number of our older ships. For instance, last Easter, I saw in the James river I should think about sixty ships which were built by the United States Government during the war, and which are simply anchored there doing nothing. They looked from the outside to be fairly serviceable ships; yet, because of their relatively small size and perhaps their slower speed, they cannot be used commercially. So we come into competition with a considerable increment of ocean tonnage of a modern character, built since the war. I do not say that I saw dozens of ships; I saw acres of ships. I think they estimate them by the acre, and they were anchored in the James river, and apparently there was no use for them.

Mr. HANSON: You can see them yarded up in the Panama canal. I have seen lots of them.

Mr. JELLIFF: If I may venture to go back to my former question with respect to the reduction of rates, I think it came out yesterday that there were some reductions on flour, and if I remember rightly, on lumber. I would like to know how many commodity rate reductions there were, to try and bring out the fact whether we will have to face the same factor in the future.

Sir HENRY THORNTON: I think what you have in mind is a general statement with respect to the rate situation last year as compared with the year before.

Mr. DOHERTY: Every service has had its own peculiar difficulties, and to give Mr. Jelliff a general answer would scarcely be fair. If we could deal with the different services as they are, or as they have been, we could tell you what the corresponding earnings have been.

Sir HENRY THORNTON: Mr. Jelliff, I think an answer to your question will emerge when we come to consider each one of the routes with the earnings and deficits of each route. At that time the rate situation can be revealed more intelligently than by giving you a general answer now, which probably would not mean anything.

Mr. JELLIFF: There is one answer which perhaps you can give, as to whether there was anything like a general reduction.

Mr. DOHERTY: In certain of our services the reductions were very drastic—

Mr. WOOD: And wholesale.

Mr. CANTLEY: Will you be good enough to explain why you have taken these seven vessels out of one service and transferred them to the Railway Depart?

Sir HENRY THORNTON: They were transferred to the Canadian National West Indies service.

Mr. CANTLEY: Why? What is the object?

Sir HENRY THORNTON: Because the company is a corporate entity and should own its own implements—should own its own ships. I do not know just what you have in your mind, Colonel.

Mr. CANTLEY: I am not quite able to see the necessity for the change. Could you not have chartered the boats?

Sir HENRY THORNTON: Yes; we could have done half a dozen different things.

Mr. CANTLEY: Why do this particular thing? I am not criticizing. I am asking for information.

Sir HENRY THORNTON: We have a company known as the "Canadian National (West Indies) Steamships, Limited," and they own the five new ships, and it was thought preferable for them to own all of these seven other ships.

Mr. CANTLEY: At what rate were they transferred?

Mr. COOPER: We gave that yesterday.

The CHAIRMAN: About \$25 a ton.

Hon. Mr. STEVENS: The list is in yesterday's evidence.

Mr. HANSON: In any event, that is the plan you adopted?

Sir HENRY THORNTON: Yes.

Mr. HANSON: And it was necessary to have these seven ships for that service in addition to the five *Lady* boats?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: I think we will probably make more progress if we go on item by item.

Mr. COOPER: The book value of the vessels as of December 31, 1927, is shown at \$62,370,683.92.

Hon. Mr. STEVENS: That is a reduction?

Mr. COOPER: There was a reduction during the year of \$1,124,335.14.

Hon. Mr. STEVENS: Written off?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: Ships scrapped, sold, disposed of, etc., etc.

Mr. COOPER: It was the *Canadian Raider* which was written out—just one ship.

Hon. Mr. STEVENS: How much did you take out of the depreciation fund for that?

Mr. COOPER: The amount of depreciation accrued against it was \$336,094.03.

Hon. Mr. STEVENS: That was taken care of out of the depreciation reserve?

Mr. COOPER: Yes.

Mr. GEARY: It is credited to depreciation reserve?

Mr. COOPER: It is charged to depreciation reserve.

Mr. GEARY: And the rest is what?

Mr. COOPER: The capital cost of the ships is written off as against the capital liability account, which is represented by the capital stock.

Mr. GEARY: And it just naturally disappears?

Mr. COOPER: Yes, absolutely. The amount of interest included is reduced; the amount of depreciation is reduced, and to that extent the profit and loss deficit is reduced.

Mr. GEARY: That means your depreciation reserve is not adequate? You could have taken the whole capital cost out?

Mr. COOPER: No. The book value was \$1,151,000, and the depreciation is shown at \$336,094.03. We accrued the interest at a rate of $4\frac{1}{2}$ per cent.

Mr. GEARY: Was it destroyed?

Mr. COOPER: It was wrecked, yes.

Mr. GEARY: Any insurance?

Mr. COOPER: Yes, there was a small amount of insurance—\$152,000.

Mr. GEARY: You ought to be able to take care of all of your losses, because that is taken as a factor in setting up depreciation.

Mr. COOPER: We would not expect that unless a boat lived twenty-five years, and we accrued depreciation on a 4 per cent basis.

Mr. GEARY: That is set up on a general basis. You may lose a ship at the end of a year, and you take care of that in estimating your depreciation—the same with obsolescence, wearing out and destruction.

Mr. COOPER: This had a book value of \$1,151,000, and with that accrued interest for depreciation at the rate of $4\frac{1}{2}$ per cent, the total depreciation accrued to date was \$336,094.03.

Hon. Mr. STEVENS: You said that there was \$152,000 insurance. Was that insured in your own insurance reserve?

Mr. COOPER: Yes. There would be about eight years' depreciation accrued against this particular ship.

Hon. Mr. DUNNING: Mr. Cooper, to clear it up, you might deal with one of the cases where you sold a vessel.

Mr. COOPER: It is exactly the same thing.

Mr. GEARY: You do not set up a depreciation reserve to take care of accidents?

Mr. COOPER: They are covered by insurance.

Mr. GEARY: You have not insured them up to their value?

Mr. COOPER: No, only on the present day value. These boats are all carried in the investment account.

Sir HENRY THORNTON: If we could insure these ships at their original value, the solution would be simple.

Mr. GEARY: Your present value is approximately your book value, less depreciation?

Mr. COOPER: No, sir.

Mr. GEARY: Why not?

Mr. COOPER: The insurance value is something like \$28 a ton. We only collected from the insurance company, with respect to that vessel on the basis of \$28 per ton dead weight.

Mr. GEARY: Your present value is presumably your book values less your depreciation?

Mr. COOPER: No, sir.

Mr. GEARY: Why not?

Mr. COOPER: The insured value is something like \$28 a ton—we only collect from the insurance company the present worth of that vessel, which is on the basis of \$28 per ton.

Mr. GEARY: They have depreciated faster than you have allowed for.

Hon. Mr. STEVENS: The capital cost was enormously above the present cost.

Mr. GEARY: That may be true, but theoretically the value less the depreciation should leave the present value.

Sir HENRY THORNTON: If the ship lived out its life.

Mr. GEARY: We are talking at cross-purposes. There is that much left in the book value of the ship, as representing the difference between the cost price and the depreciation, theoretically. That must be sound.

Hon. Mr. STEVENS: And if you cannot insure it for that, you must lose the difference.

Sir HENRY THORNTON: We could not insure these ships for that.

Mr. GEARY: Therefore you have to take their residue value.

Sir HENRY THORNTON: Nor the residue value; if we could, the faster they are wrecked, the better.

Mr. GEARY: The depreciation is only set up to represent the used up value?

Mr. COOPER: Your argument would be correct, Colonel Geary, if present day values were equal to the cost of these vessels.

Mr. GEARY: They were over-cost, really?

Mr. COOPER: As compared with present day values.

Hon. Mr. STEVENS: About three times.

Mr. GEARY: And their inventory value would not represent anything like that.

Mr. COOPER: And for those reasons, Colonel, yesterday you spoke of the operating loss being something like \$3,600,000, which you arrived at by taking the loss and adding to it about \$2,400,000 odd for depreciation. That is not correct, as it represents something on the book costs of the vessels which is altogether out of proportion to what the operating cost should be fairly charged with.

Hon. Mr. STEVENS: Is there any reason why, in connection with the Canadian Government Merchant Marine, Sir Henry, we should not reconstruct the financial situation so as to reflect a fair value for these ships?

Sir HENRY THORNTON: That principle, of course, is obvious, and cannot be successfully attacked. It is true of the Canadian Government Merchant Marine, and it is also true of the greater portion of the Canadian National Railways.

Hon. Mr. STEVENS: That is true, and why should we not do it with the Canadian Merchant Marine, which is not embarrassed with the suit which the other day was threatened against the Canadian National Railways?

Sir HENRY THORNTON: That is one of the things which we have to do in connection with the whole situation.

Hon. Mr. STEVENS: It is manifestly absurd to go on piling up this discrepancy each year, and in this instance if you have a ship lost you have five or six hundred thousand dollars which cannot be covered in any way shape or form by depreciation or insurance or in any other way.

Sir HENRY THORNTON: We have to consider the whole question of policy in respect to the Canadian Government Merchant Marine and the railways. And in connection with it there can be no argument but that it ought to be on a sound financial basis if it is to be continued.

Hon. Mr. STEVENS: Why not do it?

Sir HENRY THORNTON: That is one of the things which we have under consideration, and we may do it.

Hon. Mr. DUNNING: Provided that the general principle meets with approval.

Mr. GEARY: Oh, there is no doubt of that.

Mr. CANTLEY: Certainly that is right.

Mr. GEARY: The more you write it down, the more money you will make.

Hon. Mr. STEVENS: I think that construction could not be put upon it.

Sir HENRY THORNTON: I think that construction could hardly be put upon what Mr. Stevens said or I said. There is a very ample margin in the capital account to write these steamers down to a very fair value, and still be successful.

Hon. Mr. STEVENS: These steamers were constructed at from \$67.50 per ton up to \$100 per ton?

Mr. COOPER: More than that.

Hon. Mr. STEVENS: The lowest was for contracts at \$67.50.

Mr. WOOD: Oh, there were several that went up to considerably more than \$100 per ton.

Hon. Mr. STEVENS: And they are worth to-day to build from \$45 to \$50 per ton.

Mr. WOOD: New ships, I think, could be built around \$45 a ton.

Sir HENRY THORNTON: In connection with ocean rates, you have to understand, as you no doubt do, that there is no regular body which passes upon and fixes ocean freight rates.

Mr. HANSON: That is to enforce the rates, but I think it may be said that there is a body which does fix rates, with equal effect, practically,—the North Atlantic conference.

Sir HENRY THORNTON: And more than that, ocean freight rates are fixed by competitive conditions very largely.

Mr. HANSON: I wish they were.

Hon. Mr. STEVENS: And they would be fixed upon the cost of to-day largely, so that I think you might as well wipe out this terrible deadweight loss which you are having year by year, which is very much against you.

Mr. GEARY: Are you referring to writing off all the ships?

Hon. Mr. STEVENS: I am referring to the \$61,000,000 for ships, which are worth only about \$30,000,000.

Sir HENRY THORNTON: Mr. Stevens is referring to the present condition of the accounts, which was very peculiar.

Mr. CANTLEY: Why not face the situation and write them down to what the value should be.

Sir HENRY THORNTON: We have been carrying that burden both on the Canadian Government Merchant Marine and on the Canadian National Railways for six years and it is discrediting and disheartening and puts the Canadian situation in a false position.

Mr. CANTLEY: Here there is nothing involved except the mere fact of writing the thing off.

Sir HENRY THORNTON: You and I do not differ one hair's breadth on that.

Mr. GEARY: What would happen to your balance sheet?

Mr. COOPER: We would write off the liability to the government.

Mr. GEARY: And that is carried now as an asset, is it not?

Hon. Mr. DUNNING: I cannot say as to that now, Mr. Geary. My impression is that the notes have been written off as ships have been sold.

Mr. COOPER: The entire Dominion investment is in the net debt, and is not carried as an active asset.

Hon. Mr. DUNNING: When you sold a vessel, your notes to the Dominion with respect to that vessel had to be taken care of, and are taken care of by writing off immediately?

Mr. COOPER: Yes.

Mr. CANTLEY: If you do that, our depreciation account should be increased over 4 per cent. On a new ship you write off half her value in ten years, and there is no ship afloat which is worth half of her cost value in ten years.

Hon. Mr. DUNNING: If we come back next year with a readjusted Merchant Marine, I understand we will have your approval in principle?

Mr. CANTLEY: Yes, you will.

Mr. GEARY: I do not say that you will at all have my approval.

Hon. Mr. STEVENS: You will have, as far as I am concerned. I think it is perfectly ridiculous that we should go on kidding ourselves that we have this \$61,000,000 assets when we have nothing of the kind. And not only that, but you have other charges which are not operating, of \$3,900,000, and that is included in the total deficit of \$57,784,000. At least half of that interest charge should not appear there at all.

Mr. GEARY: It is the same principle which enters into the reconstruction of the National Railways. There are a great many other factors which I would want to consider before I would agree to it.

Hon. Mr. DUNNING: I do not think it is fair to the railway to say that the condition is the same, because in this case the assets to-day are undoubtedly not worth their depreciated book cost, on account of the high original cost. No one is claiming that the railway is in that position, so far as its physical assets are concerned. The parallel is not exact, I would say, for consideration.

Mr. McLEAN (Melfort): It would not make any difference to the Marine administrators if the capital disappeared altogether, because at the present time the capital is not earning operating cost, whereas the railroad is earning more than its operating cost; and it would be more encouragement to the railway if they were put on a sound financial basis.

Mr. GEARY: Who is to say that the capital account of the Canadian National Railways represents the proper capital cost?

Mr. McLEAN (Melfort): I would not say as to that, but it is more encouraging to the railway than the present position is to the Merchant Marine.

Mr. GEARY: A good deal more would have to be said before I would say that I would agree.

Mr. COOPER: I was just thinking, Colonel Geary, we are figuring 4 per cent depreciation on a boat at \$200 a ton while the present day cost would be about \$25; we are therefore figuring at the present time depreciation at about 32 per cent on the present day value.

Mr. GEARY: You would have to write it down to its present day value, to have your book accounts of much good. Your 5 per cent or 4 per cent depreciation in ten years would just about bring about the result which Colonel Cantley says that you have, a half value there; and you have the other half represented in your reserves.

Mr. COOPER: We are writing off only about 32 per cent.

Mr. McLEAN (Melfort): You are saying Colonel Geary, that if you cannot write off the proper proportion of the cost for depreciation, you should increase your depreciation?

Mr. GEARY: You should write off the cost every time you lose a ship. If it has not lived out its life, you have not written off anything like its book cost during its life. Supposing it lives a full life, at 4½ or 5 per cent your depreciation reserves will not anything like meet its book cost.

Mr. COOPER: $4\frac{1}{2}$ per cent on the present day values?

Mr. GEARY: No, you set up the depreciation on the book cost and say, the percentage is fixed on a twenty year life. If at the end of the twenty years the ship dies, your reserves would equal your book cost?

Mr. COOPER: Yes, surely it would.

Mr. GEARY: It is only in case of an accident that it would not.

Mr. COOPER: It is where the life of the vessel is less,—

Hon. Mr. DUNNING: Or in the case of a sale.

Mr. GEARY: The only time it is right is when you fix upon its life and it lives its whole life.

Mr. COOPER (Reading):

Plant and equipment..	\$ 59,182 26
Office furniture & fixtures..	56,050 26
Other..	285 00

Total.. \$61,361,866 68

Current:

Cash in banks..	548,093 77
Accounts receivable..	218,128 44
Due by agents..	633,391 09
"Advances to Captains, Crew and Agents	\$ 95,943 10
Inventories of Stores and Supplies	189,417 13

Total	\$1,684,973 53
Unadjusted Debits	66,850 02
Insurance Fund	3,308,733 75 "

That is the investment of the fund.

Hon. Mr. STEVENS: What is that invested in?

Mr. COOPER: Dominion of Canada Bonds, Guaranteed Bonds and Municipal Bonds,—all high class.

Sir HENRY THORNTON: It is all invested in sound securities.

Mr. GEARY: Trustee securities.

Mr. HANSON: It is an actual fund, then, not invested in ships.

Mr. COOPER: Yes, real money.

On the liabilities side of the balance sheet we have the Capital Stock at \$450,900.00.

Mr. GEARY: The Capital Stock, does that represent cash at all?

Mr. COOPER: The \$900 was cash, I believe.

Mr. HANSON: Those were the Directors' qualifying shares?

Mr. COOPER: Yes.

Mr. GEARY: They were issued as paid up?

Mr. COOPER: They are fully issued stock. There was \$10,000 capital per boat. We have forty-five vessels, and we have \$450,000 of outstanding stock, plus \$900, nine shares for Directors' qualifications.

Mr. GEARY: Paid in cash or arranged?

Hon. Mr. STEVENS: All that is owned by the government.

Mr. COOPER: The \$450,000.

Mr. GEARY: The gentleman who bought the stock get no dividends?

Mr. HANSON: Oh, the government put up that money, too.

Sir HENRY THORNTON: That is a philanthropic movement.

Mr. COOPER: (Reading)

There were issued—

" 6,609 Shares of \$100,000 each. . . . \$	660,900 00
Less:	
Cancelled or held in Treasury in respect of Vessels disposed of, 2,100 Shares	210,000 00
	<hr/> \$ 450,900 00

Dominion of Canada Account:

Notes payable and Advances due Do- minion Government (Secured by Mortgages on Vessels)	60,689,671 67
Other Advances by Dominion Govern- ment	10,639,902 45
Interest Accrued to December 31, 1928	29,005,063 00
	<hr/> \$100,334,637 12
Advances by Canadian National Railways	\$335,245 47"

Hon. Mr. STEVENS: What was that?

Mr. COOPER: The Merchant Marine was a little short of working capital, and it was necessary that the National Railways should lend them that amount of capital. It is somewhat of a temporary situation.

Mr. GEARY: You have only about \$1,700,000 working capital?

Mr. COOPER: We have not as much as that.

Mr. HANSON: There are current assets.

Mr. GEARY: Don't bother. What do you call your working capital?

Mr. COOPER: I should say it would be everything except the capital assets and the capital liabilities, apart from the investment of the insurance fund, which could not be drawn upon for ordinary working purposes. You see, apart from those unadjusted debits, it is all current.

Mr. HANSON: As a matter of fact from the examination of these accounts it would show you have not any net assets.

Mr. COOPER: We have some working capital. Altogether we have \$1,412,000 of working capital. We had not received at December 31, 1928, our full deficit for that year by an amount of \$533,000. So that the net working capital position at December 31, 1928, was \$879,000; but when we have been reimbursed by the government for our full deficit in 1928, it will be \$1,412,000. But that again is a little short of what we should have.

The CHAIRMAN: Accounts payable.

Mr. COOPER: "Accounts payable, \$1,175,212.97."

Hon. Mr. STEVENS: What are they?

Mr. COOPER: They are vouchers unpaid.

Hon. Mr. STEVENS: Just open account?

Mr. COOPER: Chiefly.

Hon. Mr. STEVENS: That is not large.

Mr. COOPER: No, it is quite current, too, it is in October, November and December accounts.

Mr. HANSON: All over the country?

Mr. COOPER: Yes, coal, fuel and everything.

Hon. Mr. STEVENS: Just current accounts?

Mr. COOPER: Yes.

Mr. HANSON: As against \$218,128.44 of accounts receivable.

Mr. CANTLEY: There are amounts due by agents.

Mr. COOPER: (Reading)

Balances of Uncompleted Voyages.. . . .	\$200,234 52
Reserve for Depreciation—Vessels	19,019,420 43
Insurance Reserve.. . . .	2,691,357 07
Profit and Loss—Deficit.. . . .	57,784,583 60

The CHAIRMAN: Is it desired by the Committee that we should go through the operating account in detail?

Mr. COOPER: Any questions on the revenue account, I think Mr. Wood or Mr. Doherty would answer.

Hon. Mr. STEVENS: On Operating Account, I remember that on previous occasions there has been a hesitation to disclose the voyage returns, which is quite natural and, I think, probably quite proper, because you cannot disclose to your competitors just exactly what you have secured out of various voyages. But I wonder could we get a statement of the various services you have, and what is the general result from those services? Take all regular and well established services first.

Sir HENRY THORNTON: I think you will probably pretty well clear up this operating account, both as to revenue and expenses, if you would consider as I think you did in past years, the various routes on which we maintain services. Now, as in the past, as Mr. Stevens has said, this discussion should not be made public.

Hon. Mr. STEVENS: I think that is quite fair.

The CHAIRMAN: We will ask the press not to take down anything Sir Henry says on that heading.

Sir HENRY THORNTON: In former years, when we came to discuss the voyage accounts we asked the press to retire.

Hon. Mr. STEVENS: I would suggest that we need not go into the voyage accounts. I am speaking for myself, and Colonel Cantley agrees with me. Other gentlemen may express their own views. If we get a picture of the services, without going into the voyages, I think it should be satisfactory.

Sir HENRY THORNTON: I rather think, Mr. Stevens, I could give you a statement in general terms without going into the respective voyages, which would serve your purpose, and which would disclose nothing more than could ordinarily be obtained.

The CHAIRMAN: Is there any objection to that being made public?

Sir HENRY THORNTON: No, not in that respect.

The CHAIRMAN: Alright, gentlemen.

Sir HENRY THORNTON: The situation is as follows, gentlemen: In 1928 there were 235 voyages, from which the total revenue was \$9,112,484.53, divided as follows: from export revenue, that is to say revenue on exports from Canada, \$5,197,833.70; and on import traffic \$3,914,650.83; making the total above given.

Now, as compared with last year, that is with 1927, we operated 240 voyages from which the total revenue was \$10,212,159.04; of that amount, from exports there accrued \$6,591,054.52; and from import traffic, \$3,621,104.52.

The routes covered in 1928 were: London and Antwerp; Cardiff and Swansea; West India, passengers; West India, freight; Halifax to West Indies; to New Zealand and Australia; to South America; to Newfoundland; and Charters.

In 1927, the routes covered were again: London and Antwerp; Cardiff and Swansea; West Indies, passengers; West Indies, freight; Halifax to West Indies; Australia and New Zealand; Newfoundland; and again, Charters.

Then in addition to that, on the Pacific coast there were the inter-coastal services, the Pacific coastal services, Vancouver to Great Britain, and Vancouver to Antwerp.

Mr. GEARY: And South America?

Sir HENRY THORNTON: That is not in this year's accounts. There were four sailings to South America in 1927.

Hon. Mr. STEVENS: You have cancelled the Vancouver and Great Britain route?

Sir HENRY THORNTON: Yes, in 1927, that was cancelled; that does not appear in 1928.

Mr. JELLIFF: Have you the incoming and outgoing revenue?

Sir HENRY THORNTON: I just gave you that. The export would be outgoing and the import would be incoming.

Mr. JELLIFF: I meant the routes.

Sir HENRY THORNTON: Yes, I have that for each route, but I understood we would not go into any detail.

Mr. JELLIFF: No, I would not ask for that.

Mr. McLEAN (*Melfort*): I notice that there were \$1,100,000 less earnings last year than the year before and the tonnage was greater.

Sir HENRY THORNTON: The tonnage was greater, and the earnings were less due to reduced rates. I think most of it was due almost entirely to reduced freight rates.

Mr. McLEAN (*Melfort*): About 10 per cent reduction.

Mr. BELL (Montreal): Has the rate war been settled at all?

Sir HENRY THORNTON: Yes, that has been settled.

The CHAIRMAN: The war is over.

Mr. HANSON: Just in what way has the New Zealand rate been settled, you have taken about two-thirds for yourselves.

Mr. WOOD: We succeeded in getting two-thirds of the voyages because we succeeded in getting two-thirds of the entire business built up during the process of probably two or three years.

Hon. Mr. STEVENS: Is that from eastern ports?

Mr. WOOD: From Montreal in summer, and Halifax in winter, through the Panama Canal.

Hon. Mr. STEVENS: But not from Vancouver to New Zealand?

Mr. WOOD: No.

Mr. GEARY: Is it mostly butter?

Mr. WOOD: No, we do not bring any butter; the other fellow does that. I am sorry we do not bring the butter as we would earn more money.

Mr. HANSON: You are handicapped for the butter trade?

Mr. WOOD: We are not equipped for the butter trade, unfortunately. If it comes, we would like to handle it. There is a ship leaving New Zealand in a week with 12,000 boxes of New Zealand apples coming into Halifax. Those apples are packed in boxes made out of British Columbia lumber.

Mr. JENKINS: Where would those be destined for?

Mr. WOOD: For points in Quebec province, and Ontario, as far west as Fort William.

Mr. GEARY: They do not send any to the Okanagan?

Mr. WOOD: They are all sold to arrive; none are sold on commission.

Mr. BELL (*St. Antoine*): Can we get details of that apple shipment from New Zealand?

Mr. WOOD: Twelve thousand boxes.

Mr. BELL (*St. Antoine*): Would it be out of the way to ask how the freight on ship shipment would compare with the freight on apples from the Okanagan valley to Montreal?

Mr. DOHERTY: Probably 75 cents per hundred on boxes from New Zealand.

Mr. BELL (*St. Antoine*): And what would it be roughly from say the Okanagan Valley to Montreal?

Mr. WOOD: I think it is one dollar and a half per hundred pounds.

Mr. POWER: How does it compare in terms of boxes?

Mr. DOHERTY: I would say about the same.

Mr. WOOD: The same size of boxes.

Mr. JENKINS: What time of the year would they come here?

Mr. WOOD: They are coming now.

Hon. Mr. STEVENS: From now until about the end of July. We have had Australian apples coming to Vancouver for the last thirty-five years, to my knowledge. Of course, we ship them out of British Columbia because of a certain moth. There are no regulations in the east. That is a provincial regulation.

The CHAIRMAN: In view of what Sir Henry has told us, is it still the desire of the Committee to go through those operating accounts, item by item?

Mr. HANSON: Has Sir Henry completed his general statement—

The CHAIRMAN: That is the general statement.

Mr. CANTLEY: There are only one or two items here that I would like to ask a question on; one is, with regard to the cablegram account. The business was not much greater than it was the year before. What was the cause of the difference in figures this year?

Sir HENRY THORNTON: General run of business.

The CHAIRMAN: Do you want to consider the deficit account?

Dr. BELL (*St. Antoine*): Before you leave that, Sir Henry, I see by the newspapers that you are now agents for the Norwegian American Line. Is this a new departure on the part of the Canadian National to become general steamship agents? You might explain that to the Committee?

Sir HENRY THORNTON: Certain steamship companies, for convenience, represent us abroad, and we represent certain steamship companies for convenience here. The details of that Mr. Wood can tell you about, or Mr. Doherty. Is that it?

Mr. WOOD: Just about that. They have come in here and asked us to take care of them, that is all.

Sir HENRY THORNTON: There is a certain traffic advantage as far as the railway is concerned in representing certain steamship companies. It involves no particular significance.

Mr. McLEAN (*Melfort*): You evidently handled your traffic a good deal cheaper last year than the year before; \$1,112,000 less money handled more freight and you only increased your deficit by \$500,000?

Sir HENRY THORNTON: That is right.

Mr. McLEAN (*Melfort*): You handled your business more cheaply, or more efficiently?

Sir HENRY THORNTON: Probably a little of both.

The CHAIRMAN: Any questions, Mr. Geary?

Mr. GEARY: I was going to ask Mr. Cooper to explain that item of interest on notes due Dominion government, \$490,000.

Mr. COOPER: That is in connection with the writing off of the *Raider*, which we explained we had to write out from the depreciation reserve and the interest from the interest accrual account. Of course, that reduced the deficit account.

Mr. GEARY: Then your liability in connection with that was written off by the government too?

Mr. COOPER: Was written off by the government.

Mr. GEARY: Yes, if they had a charge for interest against you—

Mr. COOPER: No, they do not accrue interest in the government accounts. It is not represented in the government accounts in any way.

Mr. GEARY: Then it is on notes due the Dominion Government; the Dominion Government must have those notes?

Mr. COOPER: They have notes, but in the public accounts they do not set up as accounts receivable for interest from the Merchant Marine.

Mr. GEARY: So that was never charged up in the government accounts at all?

Mr. COOPER: No. As a matter of fact, in connection with the Canadian National Railways, for the total interest \$280,000,000, there is no corresponding asset in the government books. It is the same thing with the Merchant Marine.

Mr. HANSON: I would like to ask a question, Sir Henry, which is not germane to those operating accounts. Is it your opinion that the operation of the Merchant Marine has had any effect, and if so what, in cutting down transatlantic and other freight rates, because if it has not I do not see much use in keeping up this Merchant Marine.

Sir HENRY THORNTON: Well, that is not altogether an easy question to answer. I think myself it has had a certain indirect beneficial effect as far as the Dominion itself is concerned. The knowledge of every steamship company that the Canadian Government has a Merchant Marine service which is entirely unhampered in the matter of freight rates, I think, has the effect of probably preventing extortionate rates. But the question is by no means an easy one to answer off-hand.

Mr. HANSON: Your suggestion is this, that it has a deterrent effect in keeping those fellows down?

Sir HENRY THORNTON: I should think that that would be a fair statement.

Mr. HANSON: I call your attention to the situation so far as the Nova Scotia fruit growers are concerned. As you are aware, nearly all the apples grown in the Annapolis Valley are exported to the old country. The Co-operative Growers' Association were notified by the North Atlantic Conference that if they would ship all their stuff by the Conference steamships they would have a rate, we will say, of 90 cents a barrel, but if they did not ship the whole crop it would be \$1.10 for any portion that they did ship. That is about right, is it not, Mr. Wood?

Mr. WOOD: The inference there is that the balance of the stuff would be shipped by tramps. That was to prevent them using tramp ships.

Mr. HANSON: Or anything outside the Conference?

Mr. WOOD: Anything outside the Conference.

Mr. HANSON: For instance, over the Merchant Marine.

Mr. WOOD: Well, I do not think we figured anything on that business at all.

Mr. HANSON: You had no service?

Mr. WOOD: We did carry some apples.

Mr. HANSON: My information was that you did carry it?

Mr. WOOD: We carried some.

Mr. HANSON: And they indignantly refused it, even though it cost them more money. I got this from one of the shippers; with the result that they were penalized on any shipments they made by a Conference ship. Would your service have any effect on breaking up that discrimination—because that is what it is.

Mr. WOOD: No, I do not think so.

Mr. HANSON: You could not help that situation?

Mr. WOOD: Our service is not large enough, an odd shipment on a small ship, would not carry very many; our ships going into Swansea would carry only a few apples. Liners of big capacity would carry 15,000 barrels where we would carry three or four, and give a more frequent service. They would probably ignore us in the matter.

Mr. HANSON: So that your being a factor in the situation would not help?

Mr. WOOD: If we had services to all ports it would make a vast difference; of course London would count, but our ships could not carry very many apples.

Mr. JELLIFF: To get back to the question I asked previously, Sir Henry I think said there had been a drastic reduction in rates. I would like to get an idea of the commodities to which that applied.

Sir HENRY THORNTON: Mr. Doherty will explain that.

Mr. DOHERTY: Without disclosing the services I would like to give you an indication of some of the tonnage increases we have had, with the relatively reduced rates. I cannot call it revenue, but there is one service; for example in 1928 we carried 109,000 tons, and the rate was \$8.12 per ton, whereas in 1927 we carried but 63,000 tons, or 40,000 tons less but at an average freight rate of \$11.40 per ton. I think that will help to explain what we have in mind when we say we have more tonnage but a lower revenue, because of the reduction in the freight rates. I can pick out another one here and there.

The CHAIRMAN: I think what Mr. Jelliff wants is the details of some of the commodities on which freight rates have been reduced.

Mr. DOHERTY: We had automobiles, we had grain—grain rates have been lowered—flour rates have been lowered, rubber tires, and general cargo. Take the Australasian situation for example, one of your members mentioned a few moments ago; that naturally had a bearing. We have had difficulties, as in the trans-Atlantic trade, for reasons that have been already explained, a better type of steamers running in competition with us. We are getting the bulk commodities, paying the lowest rates, whereas the faster and better steamers are getting the fine cargoes, the perishable cargoes, the general cargoes which bring them relatively better rates. We had a service to Newfoundland, which we had to withdraw, because of the competition of a number of small steamers coming in, including Norwegian steamers, prepared to take very low rates, because the importations into Newfoundland declined so far as the St. Lawrence ports are concerned. These are the factors in the general situation.

Mr. HANSON: Your Government subsidized one route to Newfoundland?

Mr. DOHERTY: I do not know that.

Mr. HANSON: The Clark Steamship Company get a subsidy?

Mr. DOHERTY: I do not know whether they do or not.

Mr. HANSON: You know there has been an impasse between the two governments, and the subsidy has not been paid.

Sir HENRY THORNTON: Does that answer your question?

Mr. HANSON: Perhaps it does.

The CHAIRMAN: Any further questions?

Mr. McLEAN (Melfort): Is that reduction in rates distributed over the bulk of your commodities, or concentrated only in a few spots?

Mr. DOHERTY: It has been general, in respect of certain services. It has been brought about from time to time owing to conditions in other services, in connection with certain commodities. For example on grain to the United Kingdom and the Continent, the rates practically throughout the year were lower than the previous year, due to various conditions, all of which were beyond our control. We had our full share of the grain traffic.

Mr. BELL (St. Antoine): There is one question I would like to ask Sir Henry. After your new boats were put on the West Indies trade, you made provision under the West Indies Treaty for the carrying of some seventy thousand bunches of bananas between those ports and Canadian ports. I would like to know how the planters, if this question is not out of order, intend to make use of the Canadian Government Merchant Marine, when the United Fruit Company, with their own boats and their own plantations are having the same privileges in shipping bananas into Canada. In other words, the people who grow bananas will have to pay freight to you, when the United Fruit Company with their own boats and their own plantations can also ship their bananas into Canada with the same privileges. In other words under the Treaty there is no special privilege given to the Canadian Government Merchant Marine; is that correct?

Sir HENRY THORNTON: In the first place, in Jamaica there is what is known as the Jamaica Banana Producers' Association, and they will ship exclusively by our West Indies service. Their production represents a very large proportion—I do not remember the exact percentage, but a very large percentage of the total production of Jamaica. We have made an arrangement with the Georgia Fruit Company, which is a very large fruit-selling company, and which is undertaking to market these bananas throughout Canada. We were obliged to make an alliance with the Georgia Fruit Company, in order to equip ourselves (when I say ourselves I mean the producers and ourselves) in order to equip ourselves with selling agencies, experienced selling agencies, throughout Canada. The Georgia Fruit Company is a very large and important concern. I think, if I remember the figures correctly, they sell something like \$70,000,000 worth of fruit a year.

Mr. WOOD: Something like that.

Sir HENRY THORNTON: They are very experienced, very aggressive, and very resourceful. Answering your question, our feeling is that with the support of the Jamaica Banana Producers, with the support of the Georgia Fruit Company, and with our shipping facilities both by land and water, we shall be able successfully to meet any combined competition we may encounter.

Mr. HANSON: You have not set up a fruit selling agency of your own in Canada?

Mr. WOOD: No.

Mr. GEARY: Bananas seem somewhat important. How many are there shipped?

Sir HENRY THORNTON: You would be astonished at the number of bananas that are sold in the world per annum. I do not know how many; hundreds of millions anyway.

Mr. WOOD: I think Canada consumes between two and three million bunches a year.

Mr. GEARY: Do you lay bananas down in Toronto, Hamilton, or Buffalo as cheaply as they can be laid down by the New Orleans Shipping Company?

Sir HENRY THORNTON: We must, if we are to get the business.

Mr. WOOD: On bananas coming to Montreal there is a real preference; a lower rate than from New York or from Philadelphia.

Mr. HANSON: There is also fifty cents duty?

Mr. WOOD: Fifty cents duty, coming through American ports.

Mr. HANSON: Anything that comes in subsequently?

Mr. POWER: Leaving aside the question of the West Indies and these Treaty obligations, if Parliament in its wisdom decided to-morrow that the whole Canadian Government Marine were to be sold, lock, stock and barrel, what would be the effect on the Canadian National Railways, aside from the Treaty obligations?

Sir HENRY THORNTON: That involves a good many questions. To begin with, the Canadian National would lose a certain revenue, which was given at one of the previous meetings.

Mr. HANSON: It might not necessarily lose the whole of it.

Sir HENRY THORNTON: It might not.

Mr. POWER: Leaving aside the general interest of the country as apart from the Canadian National Railways, I am speaking of what effect, adverse or otherwise, would it have on the railway system?

Sir HENRY THORNTON: We would lose a certain gross revenue; about \$1,500,000.

Mr. GEARY: Between \$1,000,000 and \$1,500,000?

Sir HENRY THORNTON: Yes.

Mr. POWER: At the present time we are losing that on the operation of the Merchant Marine.

Mr. HANSON: I would like to point out that we might not lose all of it; we might lose a part of it.

Mr. POWER: The only advantage is, the general advantage of the producers of bananas in shipping their bananas to Canada.

Sir HENRY THORNTON: The chief advantage is a strategic advantage.

The CHAIRMAN: Will somebody move the adoption of the report? Mr. Hanson moves, seconded by Mr. Power, that the annual report of the Canadian Government Merchant Marine be now adopted.

Motion agreed to.

The CHAIRMAN: Mr. Henry wants to place a statement on file, if there is no objection.

The following table shows, in column 1, the adjustment made in Public Accounts at 31st March, 1919, in respect of advances to constituent parts of the Canadian National Railway System, and column 2, amount of these items as at 31st March, 1928, column 3, the changes that have taken place since the transfer.

	Adjustment from active to non-active assets as of March 31, 1919	Total of non-active assets as at March 31, 1928	Increase since transfer
	\$ cts.	\$ cts.	\$ cts.
Loans to Can. Nor. Ry.....	108,104,453 97	265,408,804 28	157,304,350 31
Loans to G.T.P. Ry.....	84,190,186 70	116,051,932 31	31,861,745 61
Loans to G.T. Ry.....	593,733 33	118,582,182 33	117,988,449 00
Misc. Railway Equipment	33,955,867 07	57,154,320 71	23,198,453 64
Loans to Can. Nat. Ry.....		54,550,000 00	54,550,000 00
	226,844,241 07	611,747,239 63	384,902,998 56

NOTE.—The Dominion Investment in C.G. Railways has always been carried in Public Accounts as a non-active asset.

The CHAIRMAN: We have also the estimates to consider. You have read them. Have you any objection or shall we adopt them and close the business?

Mr. HANSON: I think that is a pretty big order, Mr. Chairman.

The CHAIRMAN: Sir Henry Thornton will not be here next week. We will have to adjourn until the following week. Already one-quarter of them have gone through. We might as well pass them and carry them.

Mr. HANSON: That is a pretty large order, Mr. Chairman. I object to that.

The CHAIRMAN: All right.

Mr. POWER: Why do we not have another meeting this afternoon, if Sir Henry desires to go away? Call a special meeting this afternoon, if Sir Henry wants to go away, when all the members can be present.

Mr. JELLIFF: I think last year an itemized statement was given of the amount required.

The CHAIRMAN: Will four o'clock this afternoon suit?

The Committee adjourned until four o'clock p.m.

AFTERNOON SESSION

The Committee resumed at 4 p.m.

The CHAIRMAN: Let us proceed, gentlemen.

Sir HENRY THORNTON: Mr. Chairman, I take it that you now wish to take up the budget? Is that right?

The CHAIRMAN: Yes.

Sir HENRY THORNTON: We have prepared a memorandum from data with respect to the budget which I think will aid the members in this examination, if you would like to have these distributed.

The CHAIRMAN: If you will have that done, Sir Henry. Resolution 336, amount not exceeding \$53,750,000 to meet expenditures made or indebtednesses incurred—

Hon. Mr. STEVENS: I would suggest that we read this resolution clause by clause.

Sir HENRY THORNTON: If you will refer to that memorandum I think you will find it will make it very easy for you. It is the same analysis of the budget as we made with respect to expenses. On the first page you will find the budget, and then there are separate phrases which give the details of each one of the items listed on the first page.

The CHAIRMAN: Perhaps it will be easier to read the items contained in the report.

Sir HENRY THORNTON: Mr. Fairweather, will you read those items?

Mr. FAIRWEATHER (Reading): "Summary of financial requirements and resources applicable thereto, together with summary of proposed capital expenditures required for year ending December 31, 1929. Interest on funded and other debts." The details are on pages 2 and 3.

Hon. Mr. STEVENS: It is just a repetition of what we have been over?

Sir HENRY THORNTON: Yes.

Mr. FAIRWEATHER (Reading): "Grand Trunk Pacific Guaranteed Interest." The details are on page 3. "Dividend on G.T.R. 4 per cent Guaranteed Stock." The details are on page 4.

Hon. Mr. STEVENS: That is the stock you arranged for recently, and everything was satisfactory?

Sir HENRY THORNTON: Yes. I am having them read, so we will not lose sight of anything.

Mr. FAIRWEATHER (Reading): "Sinking Fund Payment." The details are on page 6.

Hon. Mr. STEVENS: This sinking fund is set up——

Mr. FAIRWEATHER: On the securities shown there.

Hon. Mr. STEVENS: Why are they not provided for in a general way?

Mr. FAIRWEATHER: They are provided for in the trust deeds.

Hon. Mr. STEVENS: It is not general.

Sir HENRY THORNTON: No.

Mr. FAIRWEATHER (Reading): "Equipment Principal payments." The details are on page 7.

Hon. Mr. STEVENS: This is usually paying off maturing equipment bonds?

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: Are these all standard equipment bonds, or are some of them special?

Sir HENRY THORNTON: They are all standard. Are there any further questions on this item?

Hon. Mr. STEVENS: No.

Mr. FAIRWEATHER (Reading): "Retirement of Capital Obligations." The details are on page 8.

Hon. Mr. STEVENS: What is that "C.A.T. Company account," the *Canadian Harvester* and the *Canadian Gunner*?

Mr. FAIRWEATHER: That represents payments due on the ships transferred from the C.G.M.M. to one of the subsidiaries operating on the Great Lakes.

Hon. Mr. STEVENS: "The Canadian Northern system branch bonds"—is that at full maturity?

Sir HENRY THORNTON: I think it is, yes.

Mr. COOPER: That is full maturity?

Hon. Mr. STEVENS: "The G.T.M.C. Car Ferry Company" is that on the Great Lakes, Michigan or Milwaukee or some place?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: How is it working out? We were discussing it last year.

Sir HENRY THORNTON: It is working out very satisfactorily, and probably before long we shall want to add to the car ferry.

Mr. FAIRWEATHER: (Reading). "Acquirement of Securities". The details are to be found on page 9.

Hon. Mr. STEVENS: What investment is this, "Can. Mar. "; it is not very clear here.

Mr. FAIRWEATHER: The Canadian Marconi.

Sir HENRY THORNTON: That is an offer which was made to ourselves and to the Canadian Pacific Railway that we should each acquire in the interest of our respective companies \$100,000 worth of this stock. We concluded, with the Canadian Pacific Railway, that it was a wise thing to do in the interests of our respective telegraph companies.

Hon. Mr. STEVENS: What contact does this give you?

Sir HENRY THORNTON: It is a transatlantic wireless company and is in a fair way to make very substantial progress. Amongst other things will be developed a new system of telephoning by wireless. It might be of interest to you to tell you that I telephoned from my house in Montreal to their station in England, and the reception was just as clear as if I had been talking to someone in Montreal, much clearer than the other means of telephonic communication which is now being used. That has not yet been brought into commercial use, but it shortly will be.

Mr. POWER: Is this the Canadian Marconi Company?

Sir HENRY THORNTON: Yes.

Mr. POWER: Is this the stock which had such a flurry on the market last year?

Sir HENRY THORNTON: Not the same stock; it was a common stock which jumped from about \$6 a share to \$30 a share in spite of what anybody could do to prevent it.

Mr. POWER: Someone said it was not worth more than that?

Sir HENRY THORNTON: That is the stock; that is the company, but this is not the stock, it is preference stock.

Hon. Mr. STEVENS: One hundred dollars par?

Sir HENRY THORNTON: Yes.

Mr. POWER: You paid par value for it?

Sir HENRY THORNTON: Yes. It pays six per cent.

Mr. POWER: When was that?

Sir HENRY THORNTON: November 15th, 1928.

Mr. POWER: That is just about the time this flurry took place. I was wondering if there was any relation between that and the purchase of the stock?

Sir HENRY THORNTON: I think it is altogether probable that the market discovered that the C.P.R. and ourselves had both bought an interest in it, and that was used for stock jobbing purposes. The stock pays six per cent interest.

Hon. Mr. STEVENS: When did you buy the initial interest? Was it bought the year before.

Sir HENRY THORNTON: We bought it at one hundred dollars a share and accrued interest.

Hon. Mr. STEVENS: You got that interest?

Sir HENRY THORNTON: Of course.

Hon. Mr. STEVENS: You bought it about the end of the year.

Sir HENRY THORNTON: Yes.

Mr. FAIRWEATHER: (Reading) "Total Financial Requirements." That is simply a summation of the above, less resources, excluding eastern lines. The details are on page 10.

Hon. Mr. STEVEN: Estimated?

Mr. FAIRWEATHER: (Reading) "Estimated. Deficit Eastern Lines, excluding interest on H. & S.W. Ry., first mortgage bonds." The details are also on page 10.

Mr. GEARY: Just shortly, how do you make your estimates, by relation to the previous year, by computation and so on?

Sir HENRY THORNTON: We put down what we think is an estimate of the gross earnings of the year, and estimate the expenses, having regard to the figures of the previous year. That gives us the net earnings and then we make the usual deductions from net income, and that gives the income applicable to this particular item. In making that estimate we must be very conservative. We must be quite sure that the amount available will be fully as large as we estimate; in fact it generally is more.

Mr. GEARY: How do you hit it, as a rule?

Sir HENRY THORNTON: You mean, how did that work out last year? Mr. Cooper knows that.

Mr. GEARY: How close did you come to your estimate last year?

Mr. COOPER: In the 1928 budget we estimated \$41,814,919, whereas the actual amount was \$49,319,343.

Sir HENRY THORNTON: Of course this also involves very largely the crop. We had a much larger crop than we estimated upon.

Mr. GEARY: In the season?

Sir HENRY THORNTON: In the season, and it is a pretty dangerous thing to estimate upon, because so much depends upon the crop. For instance, nobody can estimate to-day with any certainty what the crop is going to be, consequently the estimate has to be very conservative.

Mr. GEARY: You make an estimate then add something to that?

Sir HENRY THORNTON: We make what we regard as a fairly safe estimate, and under these circumstances the actual results are invariably better than the estimate.

Mr. FAIRWEATHER: (Reading) "Decrease account operation Maritime Freight Rates Act 1927." That is an estimate, showing the net figure on resources.

Mr. GEARY: Wait until I get that figure. First of all, you show a deficit on eastern lines, do you not, of \$4,000,000.

Mr. FAIRWEATHER: Yes.

Mr. GEARY: Then you show decreases in the Maritimes; that is the twenty per cent?

Mr. FAIRWEATHER: Exactly.

Mr. GEARY: Where do you take that, as coming back?

Mr. FAIRWEATHER: Look down at the bottom, and you will see it again. (Reading) "Deficits in net income."

"Net Financial Requirements." That is a subtraction of the two items.

"General Additions and Betterments." You will find a classification of that by lines, on page 11, and following that a classification by engineering, classifications on pages 12 and 13, and by operating regions on the succeeding pages.

Sir HENRY THORNTON: Page 11 shows the distribution of the amount.

Hon. Mr. STEVENS: Without going into all the details, on the subsequent pages, as far as I am concerned, I might ask you briefly as to these three or four items; "Eastern Lines —\$4,590,439;" is that for purchases including estimated purchases on any of these lines.

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: Or is it purely maintenance and new expenditures?

Mr. FAIRWEATHER: That is for general betterments entirely.

Hon. Mr. STEVENS: On existing lines?

Mr. FAIRWEATHER: Yes.

Hon. Mr. STEVENS: The same answer applies to the other three items?

Mr. FAIRWEATHER: Yes, sir.

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: \$28,000,000 over the whole system for betterments?

Mr. FAIRWEATHER: Only railway lines.

Sir HENRY THORNTON: Only railway lines. Then there follows the Niagara, St. Catharines and Toronto Railway and subsidiary companies, telegraphs and telephones.

Hon. Mr. STEVENS: That \$28,000,000 would include what we discussed very fully the other day, for last year, such as the relaying with one-hundred-pound rails. This is charged up to increases, additions, and so forth?

Sir HENRY THORNTON: Exactly.

Hon. Mr. STEVENS: But your maintenance is included in the item over here?

Sir HENRY THORNTON: Straight maintenance is chargeable to expenses, and that you have already dealt with. This only deals with additions to the property, exclusive of branch lines.

Hon. Mr. STEVENS: What was it last year, I have forgotten. Does the twenty-eight million correspond with last year?

Mr. FAIRWEATHER: General additions and betterments, \$25,685,385 was the estimated amount, and the amount expended was \$23,000,000 odd.

Hon. Mr. STEVENS: You are going ahead at a fairly good rate. There is quite an increase, five million dollars this year. Do you think that is warranted?

Sir HENRY THORNTON: Part of that was occasioned by such things as rail requirements in the construction of the Hudson Bay Railway. It would be unwise, unnecessary, and uneconomical to lay on that railway any new one-hundred-pound rails. It would be very much better to apply the new one-hundred-pound rail to that part of the railway over which high-speed passenger and freight trains are maintained. We are trying to confine our relaying rails to good quality. We found that ordinary rail renewals would not produce a sufficient amount of good relaying rail for the Hudson Bay Railway. Therefore we increased our rail program in order to take care of that, which had the effect of anticipating to a certain extent the rail requirements which we ordinarily would have thought wise this year.

Mr. GEARY: Have you a credit with the Hudson Bay Railway?

Sir HENRY THORNTON: That is one of the things Mr. Stevens drew attention to, the fact that we have been, as he described it, making fairly good progress in the matter of additions to capital; that is one thing. Another thing is, our desire to hasten as fast as prudence would permit the introduction of improvements between Montreal and Toronto and Toronto and Sarnia. There was a large increase in our gross earnings, which necessitated the purchase of additional heavy power this year, as I think I explained to you in an earlier

session of the Committee. Naturally, a railway, like any other enterprise, if it is experiencing good times, finds it wise and prudent to hasten the improvement of the property.

Hon. Mr. STEVENS: I notice among the details on page 13 you have "Hotels and Sleeping and Dining Car Department—\$5,778,715," which is included in the \$28,000,000?

Sir HENRY THORNTON: Yes. It is included in the amount charged to additions and betterments this year.

Hon. Mr. STEVENS: That would include the Halifax hotel and the Vancouver hotel?

Sir HENRY THORNTON: And the additions to this hotel here.

Hon. Mr. STEVENS: Then you have an item here of \$2,000,000 for commercial telegraph facilities?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: You mentioned the other day something about the Maritimes taking over the Western Union?

Sir HENRY THORNTON: That item includes that, and also additions we propose to make to our telegraph facilities between Winnipeg and the Coast, extensions of what is known as the carrier system. I might say that those additions to the telegraph facilities have been highly profitable.

Hon. Mr. STEVENS: Another one here is the Canadian National Steamship Company Limited. I thought we had pretty well gone over steamships this morning. I see an item here of five and a quarter millions.

Sir HENRY THORNTON: That is for three new boats being built for the Pacific Coast business.

Hon. Mr. STEVENS: Coastwise vessels?

Sir HENRY THORNTON: Coastwise vessels, plying between Prince Rupert and Vancouver. Nobody will be more familiar with that situation than yourself.

Hon. Mr. STEVEN: I think you are doing wisely there. That coastwise service is paying?

Sir HENRY THORNTON: It is paying, and it is increasing with great rapidity.

Hon. Mr. STEVENS: I think your competitors are increasing also.

Sir HENRY THORNTON: Yes. They have done so.

Hon. Mr. STEVENS: When will these ships be ready?

Sir HENRY THORNTON: Next year.

Hon. Mr. STEVENS: In 1930?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Were they ordered this year?

Sir HENRY THORNTON: They were ordered this year.

Hon. Mr. STEVENS: The "Prince Rupert" and the "Prince George" have done valiant service?

Sir HENRY THORNTON: They are valiant ships. We have got our money back from them many times over.

Hon. Mr. STEVENS: They are valiant ships, and are well run.

Mr. MILNE: What type of steamers are you putting on?

Sir HENRY THORNTON: It is rather larger than the present coastwise steamers. I do not know whether you have seen the new C.P.R. boats, but it is that type of boat.

Hon. Mr. STEVENS: A fast, up-to-date coastwise steamship of about 3,000 or 4,000 tons?

Sir HENRY THORNTON: I have these particulars.

Hon. Mr. STEVENS: Will they run up to Skagway?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: In the summer both will run to Skagway?

Sir HENRY THORNTON: Yes. In the winter they only run part of the way. These are the particulars of those boats: Length, 365 feet between perpendiculars; length over all 384 feet; width 57 feet; maximum load draft 16 feet 6 inches; dead weight 1,000 tons.

Mr. McLEAN (Melfort): What did you say the dead weight was?

Sir HENRY THORNTON: 1,000 tons at load draft. That is only the dead weight. They are passenger ships. First class passengers 330; third class passengers, 70; speed $22\frac{1}{4}$ knots.

Mr. McLEAN (Melfort): Oil-burning?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (Melfort): Where are you building them, Sir Henry?

Sir HENRY THORNTON: Campbell Laird, Birkenhead, near Liverpool.

Mr. CANTLEY: Those people are getting a lot of ship-building contracts.

Sir HENRY THORNTON: They are out-bidding everybody.

Mr. CANTLEY: What is the explanation of that?

Sir HENRY THORNTON: I do not know. They have not made any money out of the last boats they built. They took these ships away from all the other bidders. They are a very responsible firm of ship-builders.

Mr. CANTLEY: Oh yes.

Hon. Mr. STEVENS: You have an item of \$2,400,000 balance of Grand Trunk lines, general betterments?

Sir HENRY THORNTON: That item was put in to take care of the period until the Inter-State Commerce Commission improves the financing, the reorganization.

Mr. CANTLEY: There is a very small item of \$1,250 in the Prince Rupert Dry Dock. What is that? Operating Costs?

Sir HENRY THORNTON: I do not know what it is. It is a small thing, for tools, probably.

Hon. Mr. STEVENS: It would not pay for anything, unless it was a watchman.

Sir HENRY THORNTON: It is probably tools. Unfortunately you have to put it down.

Hon. Mr. STEVENS: While mentioning the dry dock, have you any record of its operations?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: As we have not had anything on it, it might be interesting to mention the number of ships and the gross revenue, the expenditures, and the net revenue.

Sir HENRY THORNTON: Last year, the revenues were in round figures \$109,000; the expenses, \$104,000; net revenue \$4,400.

Hon. Mr. STEVENS: The number of ships?

Sir HENRY THORNTON: The ship repair work offering in 1928 was less than half the amount offered in 1927, and the floating dry dock was used to considerably less extent than in the preceding year, and only a very small number of large vessels were dry-docked during the year. There was only one outstanding feature in the year's transactions, that is the securing of the contract for

the construction of an eighteen car steel ferry barge for the Canadian National Railways at a price of \$143,000. This was secured in open competition with other yards on the B.C. coast. This car barge was 75 per cent completed at the end of the year.

In 1928, two wooden fishing boats were built by the dry dock, as compared with five vessels of this class in 1927.

The bulk of the work handled by the dry dock, outside of the one large contract for the car barge, consisted of ship repairs and commercial work, the later consisting of machinery repairs and similar work for mining companies and other industrial firms in the neighbourhood of Prince Rupert.

The loss which occurs through the operation of the dry dock is directly due to the lack of sufficient business to profitably employ the staff which must be maintained in order to keep the dry dock in service.

The dry dock has an agreement with the city of Prince Rupert by which the city operates the power house for the dry dock, and in 1927 this power house operation was handled by the dry dock and classed as commercial work.

As regards ship repairs, the revenue in 1928 was \$66,000, as compared with \$171,000 in 1927. There were no expensive repair jobs carried out in 1928. Only one Canadian Government Merchant Marine vessel, and one Canadian National Steamship vessel was docked.

HON. MR. STEVENS: That is a very small return. What is the investment in that? If I recall it aright, it was about a million and one half.

SIR HENRY THORNTON: Probably about that.

MR. CANTLEY: How did we acquire that?

SIR HENRY THORNTON: We inherited that when we bought the Grand Trunk Pacific.

HON. MR. STEVENS: It is a good dock, and it is too bad that it cannot be used more extensively.

SIR HENRY THORNTON: Yes, it is a first class dock.

MR. GEARY: Work up a few wrecks.

MR. CANTLEY: It is situated in the wrong place. That is the only trouble.

SIR HENRY THORNTON: Anything else, gentlemen?

MR. CANTLEY: What are you doing with the \$359,000 in the Rail River Coal Company, the next to the last item.

SIR HENRY THORNTON: Equipment for crushing, sizing and cleaning coal, \$120,000; new ventilating and safety shaft, \$150,000; additional lighting and miscellaneous equipment, \$89,000.

HON. MR. STEVENS: A moment ago something was mentioned about the Grand Trunk Western. A question occurred to me that I should have asked the other day, and I might be permitted to ask it now, in connection with the re-financing. Is it possible under the American laws controlling the Grand Trunk Western lines, to use any of the funds raised out of any re-financing scheme outside of the United States territory?

SIR HENRY THORNTON: Well, I think that is a question that may be open to legal argument. I have thought that we could; but have you had any opinions about it, Mr. Henry?

MR. HENRY: I do not know whether you can or not. I do not think you can, Sir Henry.

HON. MR. STEVENS: The reason I ask that is because the impression was conveyed to my mind the other day that the excess would be available for the general system.

SIR HENRY THORNTON: That is what I have always had in my mind, but I am not prepared to verify it.

Mr. HENRY: Moneys which were raised for improvement of the property would have to be put into the property; but the Canadian National Railways which invested cash in the property would be repaid by the proceeds of those funds. Is that the point you have in mind?

Hon. Mr. STEVENS: Yes.

Mr. HENRY: Well, the Canadian National Railways will get it, and will be able to spend it upon its lines.

Hon. Mr. STEVENS: As I understand it, when we went over it the other day it was stated that practically all of the existing securities outstanding would be exchanged for new securities.

Mr. HENRY: There are \$14,000,000 in securities in the hands of the public now, and they would be let as they are. The balance of the investment in the property is in the form of advances by the Canadian National, open account, which would be repaid either in the form of bonds or stock as the case may be. And that stock or bonds would go into the possession of the Canadian National Railways.

Hon. Mr. STEVENS: In that case you could secure the benefit of it.

Mr. HENRY: There is no question about that, Mr. Stevens.

Hon. Mr. STEVENS: That is all, except this, that you would have to get authority before you could make the issue of the fifty or sixty millions?

Sir HENRY THORNTON: Oh yes, we have to have authority from the Inter-State Commerce Commission.

Hon. Mr. STEVENS: Will they issue authority for the repayment of this?

Sir HENRY THORNTON: Oh yes.

Mr. HENRY: Anything which you can prove as a reasonable capitalizable item—about sixteen million dollars, including equipment.

Mr. GEARY: Securities or stock?

Mr. HENRY: Bonds.

Mr. GEARY: Those at present existing will retain their place.

Mr. HENRY: They will retain their place.

Mr. GEARY: Will the new issue rank *pari passu* with those bonds?

Mr. HENRY: This will be a second mortgage on such property as is covered by that mortgage, and the first charge on such property as is not covered; a lot of the property is free.

Mr. GEARY: It is these bonds which will net you a return, and he is concerned about the surplus. That would have to go into the property, I would think.

Mr. HENRY: Not necessarily.

Mr. GEARY: It is issued at so much a mile, I suppose?

Mr. HENRY: No, it depends on what value you can prove as a capital item; and that will be based upon the road and the betterments.

Mr. GEARY: It has no relation to the usual bonding power per mile?

Mr. HENRY: No.

Mr. GEARY: Then they will want to know how that money is applied, will they not?

Mr. HENRY: I think you are mixing up another question with it. The position is a recapitalization of a known investment or an investment that can be proven; and the Canadian National Railways has that investment. Now it has the right to recoup itself through the sale of the bonds it gets. Any surplus, of course, would be a Grand Trunk Western surplus.

Mr. GEARY: And that, as I say, would have to be spent on the property?

Mr. HENRY: Unless that surplus were of such a nature that it could be declared a dividend on the stock.

Mr. GEARY: And the order, on your application, would state what you may do with that?

Mr. HENRY: Yes.

Mr. CANTLEY: From the amount spent on the Rail and River Company, \$360,000 roughly, I take it that that must be roughly rehabilitating that property.

Mr. HENRY: No, that was on the present workings of what is known as No. 6, which are over two miles from the entry, so that in case of accident the miners would be in a very dangerous position and without adequate means of reaching safety. Three years ago the company was ordered to put in a new shaft, but as matters were slack this work was allowed to remain in abeyance at the time.

Mr. CANTLEY: That is you were not working it?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: In view of the very low price of coal and the number of companies that can be worked to-day, do you think it is advisable to go into spending much money there?

Sir HENRY THORNTON: Yes; we went into that very carefully, and we found that it cost a very large sum to maintain the mine in idleness, and the additional cost of operating the mine was sufficient to justify opening it.

Mr. CANTLEY: Roughly, what is the cost of winning coal there?

Sir HENRY THORNTON: It is running about \$1.45 a ton now.

Mr. McLEAN (*Melfort*): Is that the total cost, Sir Henry? Mr. Cantley used the word "winning."

Sir HENRY THORNTON: That is the cost per ton of coal produced.

Mr. McLEAN (*Melfort*): The total cost?

Sir HENRY THORNTON: Yes, the total cost.

Hon. Mr. STEVENS: At the pit head?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: That is the total cost of the coal produced delivered in the cars at the pit head, I take it?

Sir HENRY THORNTON: That is right.

Mr. GEARY: Sir Henry, I notice an item that I think is of interest to the public, in a way; it is smaller than I thought it was, the radio department, \$46,450. That is your annual cost for the whole service, is it?

Mr. HENRY: That is additional capital.

Sir HENRY THORNTON: It is new installation on ten cars, one installation for communication between the front and rear end of freight trains at \$12,000, which we are experimenting with; replacement of receiving sets on trains, \$20,000; studio at Chateau Laurier, \$3,500; new equipment at Ottawa, \$2,300; and some other miscellaneous items.

Mr. GEARY: Can you tell me the cost of the radio, such as the one you have just indicated, the general passenger recreational radio, if I might call it that; what is the annual expenditure on it?

Sir HENRY THORNTON: Can you answer that, Mr. Cooper?

Mr. GEARY: The total investment.

Mr. COOPER: The total investment in radio is \$126,000.

Sir HENRY THORNTON: That is the capital investment?

Mr. COOPER: Yes, sir.

Sir HENRY THORNTON: The next question is, how much it is costing a year?

Mr. COOPER: The cost of operation?

Mr. GEARY: Yes.

Mr. COOPER: The cost of radio operation in 1928 was \$277,000. It is shown in the annual report under operating expenses, page 20.

Hon. Mr. STEVENS: Is that all your operations in radio?

Sir HENRY THORNTON: Yes, everything.

Mr. GEARY: I was thinking more of what I call the recreational radio for the passenger trains. My question might include everything, a certain amount for business and a certain amount for entertainment.

Sir HENRY THORNTON: I am afraid we have not got that separated in that way, Colonel Geary, that is, the cost of what you describe as recreational radio.

Mr. GEARY: I meant just for the entertainment of guests in hotels, and on passenger trains, and, as Mr. Stevens reminds me, the station at Vancouver. Is that a broadcasting station?

Sir HENRY THORNTON: That is a broadcasting station.

Mr. GEARY: Have you got a wave length of your own?

Sir HENRY THORNTON: Yes.

Mr. GEARY: And that is where you broadcast from and there only?

Sir HENRY THORNTON: No. We have a station at Moncton; we have one at Ottawa, and we have one at Vancouver; and then we have arrangements with some of the press broadcasting stations for the use of their stations, certain nights a week.

Mr. GEARY: You buy just so much time from them?

Sir HENRY THORNTON: Yes, but three stations we own ourselves—Moncton, Ottawa and Vancouver.

Mr. GEARY: Do you rent out time on those?

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: You do at Vancouver, do you not?

Sir HENRY THORNTON: No.

Mr. GEARY: A very persistent organization called the Bible Students might call and see you. What is the object of that, just propaganda?

Sir HENRY THORNTON: Advertising. But there will emerge before very long a somewhat interesting commercial use that I cannot divulge at the moment. We are also experimenting in the use of the radio between the engine and the caboose of freight trains, which I think has a considerable field.

Mr. GEARY: As long as the caboose stays on the freight train?

Sir HENRY THORNTON: As long as the train is intact.

Hon. Mr. STEVENS: As long as you do not get the engineer listening in some broadcasting station with some jazz music.

Sir HENRY THORNTON: We had a very amusing incident about the first of the year. We had a hook-up from the Atlantic to the Pacific, with an extremely good concert, and there was a freight conductor out west of Edmonton on a broken down train, and he promptly cut in, of course, on the telephone wire to telephone for help and, to his surprise, he found himself listening to a concert. But, of course, that spoiled the concert; it broke the connection, and the despatcher told him to get off the wire. He said, "No, I won't," and it was thirty minutes before we could chase him off.

Mr. McLEAN (*Melfort*): What is the approximate capital cost of installation on your trains?

Sir HENRY THORNTON: \$27,000.

Mr. McLEAN (*Melfort*): And the maintenance of that would be?

Sir HENRY THORNTON: It would be chiefly the services of the operator.

Mr. CANTLEY: Betterment supplies to locomotives \$1,000,000, the fourth item from the top of page 13.

Mr. HUNGERFORD: That is the application of stokers and feed water heaters to locomotives that were not originally equipped with them, and things of that kind, modern equipment for locomotives which were not previously equipped with it.

Mr. GEARY: Where do you use those larger class locomotives that you have put on lately, the largest class you have?

Mr. HUNGERFORD: They are running between Montreal and Sarnia principally.

Mr. GEARY: I was in a smoking car not long ago, coming through the yard at Danforth, and some people who seemed to know about railways were talking and they said the report was that they were too big. Is there anything in that?

Mr. HUNGERFORD: Not a thing. They are not quite big enough.

Mr. GEARY: They said the overhead was too heavy.

Mr. HUNGERFORD: Absolutely nothing in it. They are the most economical engines we have.

Mr. GEARY: Of course, they have to have a good road to travel on.

Mr. HUNGERFORD: Oh, yes, a good road. They pull freight trains up to 6,000 tons.

Sir HENRY THORNTON: They are very economical locomotives.

Mr. JELLIFF: Take the item "New Equipment."

Sir HENRY THORNTON: Do you happen to remember what it was, Mr. Hungerford?

Mr. HUNGERFORD: Speaking from memory, 60 locomotives, and somewhere about 75 passenger cars, and something over 6,000 freight cars.

Sir HENRY THORNTON: This only includes 25 per cent of the total cost, and the rest of it will be financed from Equipment Trust. But the equipment which it is supposed to get is 60 locomotives, 75 passenger cars and about 6,000 freight cars.

The CHAIRMAN: Any other questions?

Mr. GEARY: Yes, I want to ask about the item on page 13, Oshawa Electric, Thousand Islands, and Electric Lines in Ontario. Why are they separated, electric lines in Ontario, and then Oshawa Electric?

Sir HENRY THORNTON: They are separate corporations.

Mr. GEARY: These electric lines in Ontario are the ones you run yourselves?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Under your own name?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Do you run the Niagara-St. Catharines?

Sir HENRY THORNTON: Yes, we run that.

Mr. GEARY: Under your own name?

Sir HENRY THORNTON: No. It is run under Canadian National Electric Railways.

Mr. GEARY: Is there any capital expenditure on that this year?

Sir HENRY THORNTON: Sub-station Port Dalhousie, page 21.

Mr. GEARY: Yes, that is quite all right, but where is it in your summary? Is that under Electric Lines in Ontario?

Mr. HENRY: That is the same thing.

Mr. GEARY: The Oshawa Electric Railway is also run as the Niagara-St. Catharines is, as a separate corporation?

Sir HENRY THORNTON: Yes, that is right. Page 22, I think, Colonel Geary.

Mr. GEARY: You took this over from one of the railway companies, or private ownership?

Sir HENRY THORNTON: No. The Oshawa Electric came with the Grand Trunk, and the other came with the Canadian Northern.

Mr. GEARY: Are those operating at cover cost?

Sir HENRY THORNTON: We are making a profit on those.

Mr. GEARY: The Niagara and St. Catharines railway got a raise in fares recently which put them on the right side.

The CHAIRMAN: Shall the item carry?

Sir HENRY THORNTON: We were talking about general additions and betterments. The next item is "Central Vermont requirements." That, I think, I explained previously. Then there is new equipment on the Grand Trunk Western Lines and discount on securities to be issued.

Hon. Mr. STEVENS: All of which will be returned out of the new issue?

Sir HENRY THORNTON: That is right.

Mr. GEARY: And the Express you are running as a department?

Sir HENRY THORNTON: Yes. For the purposes of economy we are running that as a department of the railways under the direction of the Traffic Department. You will find on page 24 the total to be \$105,000 estimated capital expenditures for the Express Department.

Mr. GEARY: I suppose that you must put those in as capital right along?

Sir HENRY THORNTON: Yes. You cannot help it. Under the Standard accounting rules we cannot do anything else.

Mr. GEARY: Ordinarily they are paid out of income, as a matter of fact, as far as the income will go?

Sir HENRY THORNTON: No. On the railway where the charges to various accounts are laid down with precision, we cannot depart from them.

Hon. Mr. STEVENS: You do not set up a depreciation account for horses? When they die you sell them for sausage meat?

Sir HENRY THORNTON: Presumably, and very good sausage meat they make too—our horses.

Mr. GEARY: You are used to dead horses in this business, are you not?

Sir HENRY THORNTON: Yes, but we have ceased to traffic in white elephants.

Hon. Mr. STEVENS: I rather agree with Colonel Geary's query that some of these items are pretty far fetched to come under Capital.

Mr. HENRY: They are additions to property.

Sir HENRY THORNTON: I do not know of any other way of handling it.

Mr. HENRY: It is not replacing property; it is additions to property.

Sir HENRY THORNTON: You cannot depart from any of these accounting rules by so much as a penny. To a practical and perhaps sensible person they may look absurd, but we cannot help it.

Mr. GRAY: When dealing with millions it is all right, but when it comes down to a few thousands it looks small.

Hon. Mr. STEVENS: I do not want to appear small, but if you add up the small items you will soon find that you are reaching a very large figure.

Sir HENRY THORNTON: If we departed from this system we would soon have the chartered accountants on our backs, saying that our charges were improperly made.

Mr. GEARY: If this were run as an express company it would not go into Capital?

Sir HENRY THORNTON: I think that is right, but I am not certain.

Mr. HUNGERFORD: These are for additional facilities over and above what the company has had.

Hon. Mr. STEVENS: Take these items making up the \$105,000. How do you treat the retirements of those, Mr. Cooper, when they wear out?

Mr. COOPER: Taking the case of a horse?

Hon. Mr. STEVENS: Or a tarpaulin. That strikes me as an extreme thing to put into capital.

Sir HENRY THORNTON: Take the horse.

Mr. COOPER: We know the cost of each horse and when a horse goes out of service we write it out of the property account and charge it to operating expenses. If we buy a new horse we charge that to the Property Account. Our Property Account, therefore, represents exactly what we have.

Hon. Mr. STEVENS: You treat this the same as you do your freight cars?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: And tarpaulins?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: How do you keep track of all these things?

Mr. COOPER: In connection with our express department we have a more complete record than any other department. We have a complete inventory, and can tell you the cost of every unit of equipment which they have. If we did not write these things out and take in the cost of the new, our inventory would not be worth anything. That is to say, we would have on our inventory property which did not exist.

Hon. Mr. STEVENS: It strikes me as a pretty small thing to look after a tarpaulin.

Mr. COOPER: It is a small business in individual items. The revenue of the Express Department is on a very small basis, but in the aggregate it amounts to a very considerable sum.

Mr. GEARY: That would seem to me to be a running expense. For instance, tarpaulins will last no longer than axle grease.

Sir HENRY THORNTON: You either have to have an accounting system or you do not, and if you have it, you must follow it.

Mr. GEARY: It is an I.C.C. rule?

Sir HENRY THORNTON: Formerly, before the introduction of the present Inter-State Commerce Commission regulations, railways more or less handled their accounting in the United States as they wished. Profitable companies would charge a good many items to expenses which properly belonged to Capital, and on the other hand the poorer properties sometimes would do the reverse. With such a profitable company as the Pennsylvania Railroad, for example, the old rule was a dollar for the company and a dollar for the shareholders. That is to say, the surplus was divided into two parts at the end of the year, and dividends were paid on the stock and the rest of it was ploughed

back into the property. Now, in later years, the Inter-State Commerce Commission came along and said, "No, that is not good accounting practice: it may be good commercial practice for this institution or that institution, but taking it on a whole throughout the United States it is bad accounting practice." Consequently the railways were tied down to very precise regulations and many of them had to proceed upon a much less generous policy than they had pursued.

Hon. Mr. STEVENS: I should think—addressing myself to Mr. Cooper—that you would find great difficulty in keeping track of those many items such as harness and tarpaulins all over the country.

Mr. COOPER: This item of harness and tarpaulins is additional equipment.

Hon. Mr. STEVENS: If you do keep track of them and write them off, as you suggest, it should not be charged in as Capital; if you do keep track of them it seems to me you have a very excellent system worked out almost to the last use of a pin.

Sir HENRY THORNTON: That is exactly what I understood Mr. Cooper to say that we have.

Hon. Mr. STEVENS: I must say that I think you have a mighty fine system.

Mr. GEARY: This is under regulation.

Mr. COOPER: We do go to an extreme refinement in the case of the Express Department because, as I say, the individual items in that department are very small. We have a rule on the railway—which might relieve your mind—that no item of expenditure of less than \$100 goes into the capital account. If it is less than \$100 it is absorbed in operation.

Mr. CANTLEY: The fourth item from the bottom—is that the President's private car?

Sir HENRY THORNTON: I suppose that is for the agent to run around in for supervising purposes.

Mr. CANTLEY: What about the ice crusher? Is that yours, too?

The CHAIRMAN: Shall we proceed with item 57?

Hon. Mr. STEVENS: Are we still on the first page?

The CHAIRMAN: Yes.

Hon. Mr. STEVENS: I hope my friend Colonel Cantley will not think that I am nagging at the maritimes, but I want to ask a question in regard to the charging up of the deficits and the Freight Rate Act payments. That is charged up to the railway department's estimate?

Mr. HENRY: Brought in in a separate item. There are two items, one for the 20 per cent and the other for the deficits.

Hon. Mr. STEVENS: I am a little curious at the meticulous care with which Sir Henry and his excellent staff seem to fight shy of this maritime situation.

Sir HENRY THORNTON: Well, come on.

Hon. Mr. STEVENS: You are running the show. Why should it not be in the National railway's financing? It is, in fact, of course.

Sir HENRY THORNTON: Because the Act provides otherwise.

Hon. Mr. STEVENS: Why do you show that in the railway department's estimates? You have taken over the maritime railways as part of the National system.

Sir HENRY THORNTON: The Act, as I recall it, provides that we are to be reimbursed.

Hon. Mr. STEVENS: That is for the freight rates. You could be reimbursed and show that in your earnings.

Sir HENRY THORNTON: We think this is the best way to show it.

Hon. Mr. STEVENS: It looks as if you were just segregating the maritime situation—

Mr. CANTLEY: Jabbing it into us.

Hon. Mr. STEVENS: Whether there is any purpose in it or not—

Sir HENRY THORNTON: I do not know that any denial on my part would do any good if there have been any preconceived notions. In our report and financial statement we have tried to show this as it should be shown. I think that fact is generally known throughout the country, and the whole situation is generally known, and we could neither conceal nor expose, even if we wished to do so.

Hon. Mr. STEVENS: Let me illustrate. In the estimates they are asking for \$53,750,000. I submit that you should be asking for \$60,336,000. You can display it as you like, but that is really what we are asking for. That is the amount for the National railways of Canada for next year. The point is—it does not amount to very much, only \$6,500,000, but still it is that—that the public get the idea that the total amount is \$53,000,000, whereas it is \$60,000,000.

Sir HENRY THORNTON: We credit the public with a certain amount of arithmetical knowledge.

Hon. Mr. STEVENS: They have not very much chance to exercise their arithmetical knowledge. The average citizen cannot sit down as we are doing and analyze these statements. For instance, take our report for last year: you report a surplus, which is perfectly true, of \$53,000,000 but on the last page you have summarized the whole thing as \$43,000,000, I think, but the larger figure is the figure the public gets, as the total operating surplus of the road.

Sir HENRY THORNTON: As a matter of fact there is something to be added from the point of view of railway administration. The only figure we are responsible for to the people of Canada, is the gross income, which last year was \$57,500,000. As railway administrators we are not responsible for the Maritime Freight Rates Act; we are not responsible for the capital debt of this company, which was given to us, and which we took as we found it. But we are responsible for that \$57,500,000, and I think, in justice to the administration of the railway which includes all of its officials and men, we are justified in setting forth the accounts as they are set forth. Nothing has been concealed, everything is there. There is no railway, I suppose, on the face of the earth, and certainly no other railway in Canada which gives to its shareholders so complete an exposition of its operations as the Canadian National Railways.

Hon. Mr. STEVENS: I agree with you there; I am not complaining about that.

Sir HENRY THORNTON: I think that is a desirable thing to do.

Hon. Mr. STEVENS: Do not think I am complaining about that. I think the other day, when I was not here, you indulged in some mutual admiration expressions, and I can express a great deal of admiration for you and your staff. But that does not alter the fact that the view the public gets of the situation is not quite the correct thing, so far as the cost to the people of Canada, so far as the cost of operation of this great railway system is concerned.

Sir HENRY THORNTON: I maintain that the figures that are set forth are in accordance with sound and recognized accounting practice.

Hon. Mr. STEVENS: I do not question that; your accounting system is good, but I think your \$6,500,000 of deficits under the Maritime Freight Rates Act and deficits due to other than statutory causes in the Maritimes section should be reflected in the general statement.

Sir HENRY THORNTON: I think, Mr. Stevens, we are presenting this exactly as the Act specifies, and I think if there were to be any alteration in the way in which the facts are presented, there would have to be a change in the Act. Am I right in that, Mr. Henry?

Mr. HENRY: That is right.

Hon. Mr. STEVENS: I am not talking about the way you arrive at your figures; that is statutory, no doubt, but take the figures \$5,373,000, in this estimate, you have the merchant marine and the West Indies, and you should have in here "Deficit on Eastern Lines—\$6,586,000" making a grand total of—whatever it is.

Mr. HENRY: One of the difficulties in that, Mr. Stevens, is this, that about four years ago the government ceased giving to the Canadian National Railways cash advances. The moneys raised for the Canadian National have been by way of government guarantees. Now, if the \$53,000,000 or \$60,000,000 remained in one item, part would have to be cash advances and part of it guarantees. That is why it is set out in this way. The government advances say, \$2,000,000, the deficit incurred in connection with the Maritime Freight Rates Act, and \$4,500,000, the deficit in net income due to other than statutory causes. That is in accordance with Chapter 79 of the Revised Statutes of 1927, which reads as follows:

For accounting purposes, but without affecting the management and operation of any of the Eastern lines, the revenues and expenses of the Eastern lines, including the reductions herein authorized which shall be borne by the Eastern lines, shall be kept separately from all other accounts respecting the construction, operation or management of the Canadian National Railways.

2. In the event of any deficit occurring in any Railway fiscal year in respect of the Eastern lines the amount of such deficit shall be included in a separate item in the estimates submitted to Parliament for or on behalf of the Canadian National Railways at the first session of Parliament following the close of such fiscal year.

Sir HENRY THORNTON: The Act provides how that is set forth. I do not know any other way to do it.

Hon. Mr. STEVENS: I appreciate that, but the fact remains that \$6,236,000 has to be provided for this year.

Mr. GEARY: It is done deliberately, to keep before the whole of the people all of the time what the Eastern proposition is costing. I suppose that is why it was done.

Sir HENRY THORNTON: I do not know, but I suppose that was it.

The CHAIRMAN: Are there any further questions? Shall we go on with item No. 337, Loan to the Canadian National Steamships—\$969,000?

Mr. GEARY: While you are looking at that, there is nothing in your ordinary first vote which is now passed outside of your usual and ordinary expenditures?

Sir HENRY THORNTON: No.

The CHAIRMAN: Any questions on No. 337?

Sir HENRY THORNTON: Wait a minute, Mr. Chairman. I want to be sure I have this right. There will be the Saskatoon Hotel, which we hope to start on this year.

Mr. GEARY: There is nothing in that about it?

Sir HENRY THORNTON: No. It is on page 18.

Mr. McLEAN (*Melfort*): It is in the western region.

Sir HENRY THORNTON: You are right.

Mr. GEARY: On page 18, you are spending two million odd dollars on hotels?

Sir HENRY THORNTON: That is all right. You are right, Colonel Geary; there is nothing in this that is not disclosed in the analysis you have.

The CHAIRMAN: Any questions on No. 337?

Hon. Mr. STEVENS: A while ago I asked a question of Sir Henry Thornton if the item of \$5,778,715 for hotels and sleeping and dining car department included the Halifax and Vancouver hotels, and I think Sir Henry told us it did.

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: I see another item, on page 18, "Hotels, Vancouver and other places \$2,678,125."

Mr. HENRY: That is just a segregation.

Sir HENRY THORNTON: That is a classification of the same thing.

Mr. FAIRWEATHER: It is the same thing, set out in another way.

Sir HENRY THORNTON: It says Additions and Betterments on the Western regions. It is separated, on different divisions.

Mr. GEARY: What are you doing at Jasper?

Sir HENRY THORNTON: We are building another lodge or so, about \$265,000 in new buildings.

Mr. GEARY: Nothing more on the golf course?

Sir HENRY THORNTON: No.

Mr. GEARY: How much has the course cost now?

Sir HENRY THORNTON: I cannot tell you offhand, but you can generally count on a golf course as costing about ten thousand dollars a hole, can you not?

Mr. GEARY: That was all right about fifteen years ago. I was told when I was at Jasper that at one time it was sheer rock. Is that so?

Sir HENRY THORNTON: No, it was covered with the same kind of timber adjoining the course; the soil was particularly good.

Mr. GEARY: Did you have to carry much soil onto the course?

Sir HENRY THORNTON: No, except for the greens.

Mr. GEARY: Somebody told me with great circumstance that freight trains brought that soil there.

Sir HENRY THORNTON: He must have been a C.P.R. man.

Mr. GEARY: No, he was a Vancouver man, I cannot tell what he was.

Sir HENRY THORNTON: As a matter of fact that soil from which the golf course was made was natural soil.

Mr. GEARY: It was what remained after you grubbed all the stumps off?

Sir HENRY THORNTON: No. We put a lot of manure on it.

Mr. McLEAN (*Melfort*): They might have put a load of manure on it.

Mr. GEARY: Drop me a note and tell me what the cost of that course is. Frankly, there is a good deal of talk of extravagance in the system, in establishing that course.

Sir HENRY THORNTON: There will always be criticism of the Canadian National Railways. Every time it tries to do anything at all—I do not mean this personally—but there is a certain element in this country which will invariably criticize the Canadian National for every progressive move it makes. It has been so for the last six years, and I suppose it will continue. Personally I do not care very much about it.

Mr. GEARY: That is natural, in this way; take a private company, only its shareholders are interested; but take a national railway company, and while

pretty nearly everybody pays cash, I know and you know a person who does not, and he says you are spending too much money on the golf course; that is because everybody is interested in the road, and watches what you spend.

Sir HENRY THORNTON: The answer is found in this, that the difference between revenues and net expenses has increased from fifteen million dollars in 1922 to fifty-eight millions last year. It is always advisable to spend money, if you want to make money.

Mr. GEARY: It is the people who find fault with it; it is not attributable to you or anybody else. Take a train that goes down to Komoka, and another train running the same way at the same time; it is an unfortunate state of affairs for which neither of you is responsible. You take the 2.30, you can get a train for Montreal on the two systems.

Sir HENRY THORNTON: It would be advantageous if the companies would pool their passenger services and passenger revenues, but the C.P.R. will not do it.

Mr. GEARY: It looks to an outsider as a pity that that sort of thing is going on.

Sir HENRY THORNTON: You are quite right. Pooling of passenger services in England has been carried to a considerable extent, with great advantage, but there has been very little of it done on the North American continent and in the United States I think I am right in saying that it is prohibited by law.

Mr. McLEAN (*Melfort*): Before leaving Jasper Park, can you tell us what was spent on buildings there last year, if it is convenient, if it is handy—I do not want it otherwise.

Sir HENRY THORNTON: As a matter of fact, going back to the Jasper Park situation, Jasper Park would not be of much value to us without the golf course; indeed any summer resort is not of much value these days without a golf course.

Mr. GEARY: I am not complaining of that. You have a very nice course.

Sir HENRY THORNTON: Our increase in passenger revenue due to Jasper Park was \$550,000 last year. This is an indication of what the facilities bring in the way of travel. Last year there was charged to capital on Jasper Park, \$199,000.

Mr. McLEAN (*Melfort*): That would be for a number of buildings?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: Any other questions?

Mr. GEARY: You have got a beautiful place there.

The CHAIRMAN: (Reading).

338. Loan to the Canadian National (West Indies) Steamships, Limited, repayable on demand with interest at a rate to be fixed by the Governor in Council, upon such terms and conditions as the Governor in Council may determine, and to be applied in payment of:—

Deficits in operation of the Company and of the vessels under the Company's control during the year ending December 31, 1929, and interest.

Requirements \$945,000.

Total \$55,664,000.

Sir HENRY THORNTON: That you went over before.

Hon. Mr. STEVENS: That was the West Indies Service.

The CHAIRMAN: Item 339 reads:—

MARITIME FREIGHT RATES ACT				
339	Amount required to provide for payment from time to time during the fiscal year 1929-30 of the difference, estimated by the Board of Railway Commissioners and certified by the said Board to the Minister of Railways and Canals, as and when required by him, occurring on account of the application of the Maritime Freight Rates Act, between the tariff tolls and the normal tolls (referred to in Section 9 of the said Act) on all traffic moved during 1929, under the tariffs approved, by the following companies:— Atlantic Quebec & Western Railway. Canada & Gulf Terminal Railway Canadian Pacific Railway, including Fredericton & Grand Lake Coal and Railway Co. New Brunswick Coal and Railway Company. Cumberland Railway & Coal Co. Dominion Atlantic Railway. Maritime Coal Railway & Power Co. Quebec Oriental Railway Co. Sydney & Louisburg Railway. Temiscouata Railway.....			
		1,050,000 00	1,050,000 00	

Hon. Mr. STEVENS: How do you harmonize that with your \$2,060,000?

Mr. HENRY: This is under the Maritime Freight Rates Act.

Hon. Mr. STEVENS: Oh, I understand that.

Mr. GEARY: Do you happen to remember, Mr. Chairman, the amount paid in respect of the 20 per cent last year?

Mr. HENRY: I have not got that.

Mr. GEARY: That 20 per cent I think would be kept separate. I think, Mr. Stevens, the rest of your argument is good.

The CHAIRMAN: Item 340 reads:—

340	Amount required to provide for the payment from time to time to the Canadian National Railway Company of the deficit in receipts and revenues, occurring during the year 1929, of the Eastern Lines, as provided by the Maritime Freight Rates Act:— (a) Amount of the deficit (less that amount thereof as in the next following paragraph specifically provided for) in the receipts and revenues..... (b) Amount of the deficit in receipts and revenues occurring on account of the reduction in tolls under the application of the Maritime Freight Rates Act....			
		4,526,645 00	4,418,644 50	108,000 50
		2,060,000 00	1,930,000 00	130,000 00
		7,636,645 00	7,398,644 50	238,000 50

Mr. GEARY: That is being paid out of the Consolidated Fund, is it not?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: Carried.

Summary:

Loans to Canadian National Railway Company and Canadian National Steamships.....	55,664,000 00			
Railways—Maritime Freight Rates Act.....	7,636,645 00			
	63,300,645 00			

The CHAIRMAN: Shall the estimates carry?

Mr. GEARY: It means you will have to get so much more this year, assuming it pays as well.

The CHAIRMAN: Carried.

Sir HENRY THORNTON: Does that finish everything now?

Hon. Mr. STEVENS: Just wait a moment. Might I ask, Mr. Chairman, if this concludes the matter before the Committee? I am not saying that we are completely through.

The CHAIRMAN: Altogether.

Hon. Mr. STEVENS: May I ask, then, that if there are any matters, which will not require, for instance, the attention of all the staff, you will call the Committee together again at our request, for instance after we have studied it?

The CHAIRMAN: We will have a field day when we come to consider the report.

Sir HENRY THORNTON: You have everything now before you.

Hon. Mr. STEVENS: There is a great deal of information handed in, some of it of a complicated character.

Sir HENRY THORNTON: We have given you all the information we have.

Hon. Mr. STEVENS: Personally I want to pay a compliment to you, Sir Henry, for the completeness of the information which you have given and for the excellent manner in which your staff has the information at its finger-tips. I think, Mr. Chairman, Sir Henry and his staff are to be congratulated on that feature of it. But I would like to reserve a right to query Sir Henry or some of his officers on some of the major matters, after further thought.

The CHAIRMAN: Then let us say that we will have another meeting to consider the report, and you will have the right to question the officers here as you may think fit. Then we will adjourn sine die to meet at the call of the Chair.

Mr. McLEAN (*Melfort*): Then the officials would not need to be here?

Hon. Mr. STEVENS: Speaking for myself, and not speaking for the others, as far as I am concerned I will try to intimate if I think there are any particular officials who should come. I do not want to trouble the whole staff again. Mr. Henry will be here.

Sir HENRY THORNTON: And you will notify Mr. Henry?

Hon. Mr. STEVENS: Yes, to be sure.

Could we include, Mr. Chairman, before we adjourn, this statement in the record, which is given me in answer to a question asked some time ago.

The CHAIRMAN: Yes.

Hon. Mr. STEVENS:

ANALYSIS OF CONTACT BETWEEN CERTAIN ITEMS APPEARING IN CANADIAN NATIONAL RAILWAYS' BALANCE SHEET AT 31st DECEMBER, 1928, AND RELATED ITEMS APPEARING IN DOMINION OF CANADA BALANCE SHEET AT 31st MARCH, 1928

	C.N.R. Balance Sheet	Dominion Balance Sheet		Items not represented in Dominion Balance Sheet at March 31, 1928	
		Items in Net Debt	"Current Assets"		
STOCKS.....	\$ 270,256,548 70	\$ 10,000,000 00	\$ 260,256,548 70	Schedule "K".	
GOVERNMENT GRANTS.....	16,730,086 07	15,142,633 34		Schedule "J".	
		1,203,208 80	384,243 93	Railway Subsidies, pp. 44.	
LONG TERM DEBT.....	977,889,032 94		977,889,032 94	Subsidies, etc., other than Dominion Sub-	
				sidies.	
DOMINION OF CANADA ACCOUNT—				of this amount \$440,224,185.91 held by the	
Funded debt unmatured.....	33,048,000 00			Public is guaranteed by the Dominion	
Loans from Dominion of Canada.....	581,864,221 02	33,093,333 23		See Schedule "V".	
			45,333 23	Schedule "K".	
Canadian Northern Railway.....		255,408,804 28		Exchange on conversion of Funds to Canadian	
Grand Trunk Railway.....		118,582,182 33		Currency.	
Grand Trunk Pacific Railway.....		82,958,599 08		Schedule "K".	
Miscellaneous Railway Equipment.....		56,858,496 44		" " "K".	
Canadian National Railways.....		54,550,000 00		" " "K".	
Canadian National Railways, Temporary Loans, 1928.....			13,506,138 89	" " "K".	
INTEREST ON ABOVE LOANS.....	258,024,307 41		258,024,307 41	Subsequent to March 31, 1928.	
APPROPRIATIONS AMOUNT CANADIAN GOVERN- MENT RAILWAYS.....	417,279,953 48				
Capital Canadian Government Railways.....		386,442,517 45			
Open Accounts—Canadian Government Railways.....			6,042,932 52	Schedule "F", less Hudson Bay Railway and Halifax and St. John Harbour proper- ties.	
Stores Account—Canadian Government Railways.....			9,757,420 40	Schedule "D" (Current Assets.	
Stores Account—St. John & Quebec Ry.....			2,590 94	" " "D" " "	
Open Accounts—			54,022 26	" " "D" " "	
				" " "R" " Liabilities.	

Deficits from January 1, 1921, to March 31, 1923.	11,925,948 85				Paid from Consolidated Revenue Fund.
Workmen's Compensation payments	1,517,082 86				"
Pension Fund payments	292,967 11				"
Purchase of Railway equipment, Quebec & Saguenay Railway	228,319 89				Included in item of \$57,154,320.71. Schedule "K".
Exchequer Court awards				5,728 80	Expended subsequent to March 31, 1928.
Uncashed C.G.R. cheques				34,042 72	(Retired back by Dominion.
Proportion of cost of Quebec Bridge	933,563 97				Paid from Consolidated Revenue Fund.
Prince Edward Island Railway Car Ferry facilities				150,860 23	Expended subsequent to March 31, 1928.
	1,029,137,657 63	15,748,921 60		1,510,205,570 39	

The CHAIRMAN: The Committee adjourns sine die.

The Committee adjourned to meet again at the call of the Chairman.

SESSION 1929
HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

NO. 9—WEDNESDAY, 29TH MAY, 1929

CONTAINING THE REPORT OF THE COMMITTEE

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1929

REPORTS OF THE COMMITTEE

THIRD AND FINAL REPORT

THURSDAY, May 30, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its third and final report:—

Your Committee, to which was referred for consideration and for report to the House the estimates on the Canadian National Railways, the Canadian Government Merchant Marine, the Canadian National West Indies Services, and the Maritime Freight Rates Act requirements, held ten meetings in the course of which it examined sundry witnesses, including:—

Sir Henry Thornton, K.B.E., Chairman of the Board and President, C.N.R.;
R. A. C. Henry, Deputy Minister of Railways and Canals;
Gerard Rule, K.C., Vice-President of Legal Affairs, C.N.R.;
S. J. Hungerford, Vice-President, Operation and Construction Departments, C.N.R.;
A. T. Weldon, Vice-President, Insurance, Colonization and Telegraph Departments, C.N.R.;
R. C. Vaughan, Vice-President, Purchases and Stores Department, C.N.R.;
T. H. Cooper, General Auditor, C.N.R.;
H. T. Hazen, Assistant Chief Engineer, C.N.R.;
W. U. Appleton, General Manager, Atlantic Region, C.N.R.;
S. W. Fairweather, Bureau of Economics, C.N.R.;
C. A. Matthews, of George A. Touche & Company, Chartered Accountants;
D. C. Grant, Vice-President, Finance Department, C.N.R.;
D. O. Wood, Acting General Manager, Canadian Government Merchant Marine;
J. P. Doherty, Traffic Manager, C.N. Steamships.

CANADIAN NATIONAL RAILWAYS

Your Committee has had under consideration Item 336 of the estimates, which provides for loans or guarantees of \$53,750,000 to the Canadian National Railway Company for the year ending December 31st, 1929, these estimates having now for the second time been prepared on the basis of the full calendar year. This coincides with the railway fiscal year and avoids overlapping and the tendency to confusion which existed when the annual report of the railway was on the basis of the calendar year and the estimates on the basis of the federal fiscal year.

Your Committee desires to point out that the annual statements this year are presented in a modified form, designed to meet suggestions by members of the Committee during its deliberations last year.

These modifications consist of the inclusion under one cover of the operating results of the Canadian National Railways exclusive of Eastern Lines, and of the Eastern Lines as defined under the Maritime Freight Rates Act, instead of the presentation of separate reports under separate covers as was done last year.

The annual report itself was divided into three sections as follows:—

1. That containing the result of operations of the Canadian National Railways exclusive of the Eastern Lines.
2. That containing the result of operations of the Eastern Lines as defined by the Maritime Freight Rates Act.
3. A summary showing the income account of the system as a whole including Eastern Lines.

Your Committee notes that the operating results for the year 1928 were much more favourable than those of the previous year, due to the larger crop and earlier harvest which permitted a large proportion of the 1928 crop to be moved during that year; the late harvest and inclement weather conditions in the fall of 1927, which threw a large percentage of the 1927 crop movement into 1928; and to increase in freight tonnage generally, and increase in the average haul, and an improvement in operating conditions made effective during the year.

Your Committee called as a witness Mr. C. A. Matthews of the firm of George A. Touche and Company, Chartered Accountants, who, for some years, have been engaged in making a continuous audit of the accounts of the company in order to enable them to certify as to the correctness of the consolidated balance sheet and income accounts as presented in the annual report. From Mr. Matthews' evidence it appears that Messrs. George A. Touche and Company are entirely satisfied that the accounts as presented are in accordance with recognized practice in railway accounting, and that they reflect accurately the revenues received and expenditures made during the year, as well as additions to capital account.

Your Committee gave some consideration to the question of temporary financing. Officers of the railway explained that this temporary financing was strictly in accordance with the provisions of the Appropriation Act, and had been undertaken because market conditions were not favourable to a bond issue. Such temporary financing had been arranged through the chartered banks of Canada at very favourable rates, and in the opinion of the railway management, gave no cause for concern.

Your Committee notes that the estimates for the present year, exclusive of Eastern Lines, amount to \$53,750,000 as compared with \$39,000,000 for 1928. The additional requirements are due to an increase in the amount of capital retirements of Canadian National Railways, Central Vermont Receivership Certificate Retirements, and an increase in general additions and betterments due to expanding business. In view of the explanations given, your Committee is of the opinion that this amount is necessary for the purpose of the Company for the coming year and should be voted by this House.

CANADIAN NATIONAL WEST INDIES SERVICES

Your Committee also had under consideration Item 338, loan to the Canadian National (West Indies) Steamships, Limited, whose steamships provide the services called for by the West Indies Trade Agreement. Your Committee is informed that there has been considerable competition for this business and a tendency to lower rates, and that the first year's operations may therefore not be quite as satisfactory as anticipated. Your Committee is of the opinion that the amount asked—\$945,000—is necessary for the requirements of this service in accordance with treaty obligations and should be voted.

CANADIAN GOVERNMENT MERCHANT MARINE

Your Committee also had under consideration Item 337 of the estimates—loan to the Canadian National Steamships (Canadian Government Merchant Marine, Limited)—to be applied in payment of deficits in operation of the Company and of the vessels under the Company's control during the year ending December 31, 1929, and capital requirements, amounting in all to \$969,000. Your Committee examined the report of operations for the year ending December 31, 1928, and notes that the results have not been quite as favourable as those of the previous year, due to the highly competitive situation which resulted in the reduction of freight rates in certain directions with a resultant reduction in gross revenues. Your Committee also reviewed the balance sheet of the Company and notes that the capital structure includes vessels at their original cost, whereas the present day value of this type of vessel is much below that at which the existing vessels are carried in the balance sheet. In view of this, your Committee is of the opinion that the Government should give early consideration to the writing down of the capital structure of the Merchant Marine to a point more in keeping with the present actual value of the vessels. Your Committee is of the opinion, on the evidence adduced, that the amount of \$969,000, included under Item 337 of the estimates, is required for the purposes of the Company and should be granted by this House.

MARITIME FREIGHT RATES ACT

Your Committee has had under consideration Item 340 of the estimates, to provide for the payment to the Canadian National Railway Company, as required by the Maritime Freight Rates Act, of the deficit in receipts and revenues, incurred during 1929, on Eastern Lines, the amount of the estimated deficit being \$4,526,645, and in addition a sum of \$2,060,000, representing the estimated amount by which the revenues of the Eastern Lines will be lessened during the coming year by the reduced rates granted under the Maritime Freight Rates Act in accordance with the recommendations of the Duncan Commission. By reason of the special considerations involved in the Maritime Railway situation, with which the House is familiar, your Committee is of the opinion that these amounts are necessary to give effect to the Maritime Freight Rates Act in the operation of the Eastern Lines, and should be granted by this House.

Your Committee has also had under consideration Item 339, to provide the sum of \$1,050,000 from which privately owned railways operating in territory covered by the Maritime Freight Rates Act shall be reimbursed the difference between normal tolls and the special tolls provided by that Act. Your Committee is of the opinion that this amount is necessary to implement the provisions of the Act in that regard and should be granted by this House.

A copy of the evidence taken by your Committee is appended.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

Presented, 30th May, 1929. Concurred in, same day.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

WEDNESDAY, May 29, 1929.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 10.30 a.m. Sir Eugene Fiset, the Chairman, presided.

Members present: Messrs. Duff, Dunning, Gray, Jelliff, McLean (Melfort), Milne, Stevens.

In attendance: Sir Henry Thornton, with members of his staff; also Mr. R. A. C. Henry Deputy Minister, and Major Anderson, of the Department of Railways and Canals.

Answers were submitted in reply to a series of questions previously put by Hon. Mr. Stevens. These questions and answers are contained in the printed record of to-day's proceedings.

Copies of a draft final report of the Committee were distributed, to which the Committee proceeded to give consideration.

After discussion, it was agreed to present to the House a Third and Final Report, a copy of which appears in No. 9 of the printed Minutes of Proceedings and Evidence.

The Committee adjourned.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

COMMITTEE ROOM 375,
HOUSE OF COMMONS,
WEDNESDAY, May 29, 1929.

The Select Standing Committee on Railways and Shipping met at 10.30 o'clock a.m., the Chairman, Sir Eugene Fiset, presiding.

The CHAIRMAN: At the last meeting Mr. Stevens asked a series of questions. I think the answers have been handed to him, and it is his desire that they be placed in the records of the Committee.

Hon. Mr. STEVENS: I will not bother to review them, but I want to say that apparently Sir Henry and his staff have handled the matter very satisfactorily, and they may be spread on the records as they are. So far as I am concerned, I am content.

Question 1. On page 6 of the "estimated Financial Requirements 1929" appears details of estimated sinking fund payments 1929, including eight separate issues with a total amount of "estimated sinking fund payments 1929" of \$1,044,801.47. Is this the total amount of sinking fund set aside for the retirement of securities (other than Equipment Bonds) for the year 1929, and are the securities named in this statement the only securities in relation to which the sinking fund is set up?

Answer. Yes, but the correct amount is \$1,041,801.47.

Question 2. On page 7 of the "Estimated Financial Requirements 1929" appears a statement of nine series of Equipment Notes showing a total amount "estimated equipment principle payments 1929" of \$6,316,400.

(a) Is this sum included in the estimate for the year 1929-30 of \$53,750,000?

(b) Will the sum of \$53,750,000 be raised by the issue of new C.N.R. securities?

(c) Are the items on page 7 the regular instalments of the Equipment Bond series set forth therein?

Answer. (a) Yes. (b) Yes. (c) Yes.

Question 3. On page 28 of the "Estimated Financial Requirements 1929" appears an item of \$720,000 entitled estimated discount on securities to be issued in 1929, 15-year $4\frac{1}{2}$ per cent Equipment Trust series "K". Will this item be included in the \$53,750,000 provided in the estimates, and if so, will this also be paid from the proceeds of the new issue of C.N.R. Securities?

Answer. Yes.

Question 4. In the statement filed entitled "details of new issues six years to December 31, 1928" appears a total figure of \$284,663,256.60. How much of the proceeds of this grand total of new issues for the six-year period has been used for the retirement of maturing Equipment Trust Bonds or for the meeting of periodical instalments thereon?

Answer. The total Equipment Principal payments made during the six-year period was \$41,891,400, which includes \$10,800,000 paid into Sinking Funds on account of Series "E" and Series "F".

BRANCH LINE PROGRAM

1. Will you please give a list of the last three year Branch line Program, with the amount estimated to be spent in each case?
2. The amount already raised and spent with respect to each Branch Line?
3. The amount estimated required to complete the project in each case?

Answer to No. 1	—	Answer to No. 2	Answer to No. 3
List of Branches	Estimated to spend	Amount spent (to Dec. 31, 1928)	Estimated to complete
	\$	\$	\$
St. Felicien-Mistassini River.....	1,463,000	1,365,018 20	20,000
Grand'Mere—East Burrills.....	1,683,000	1,711,645 86	600,000
Weyburn-Radville.....	570,000	626,982 92	Line complete
Willowbrook, N.W.....	616,000	438,064 01	175,000
Sturgis-Peesane.....	3,395,000	1,868,618 42	1,425,000
Peesane Northerly.....	570,000	109,415 25	460,000
Shellbrook Westerly.....	2,480,000	1,267,855 86	1,200,000
Turtleford S.E. from M. 67.....	1,130,000	762,236 50	175,000
Kindersley-Glidden.....	640,000	363,137 96	200,000
Spruce Lake Westerly.....	990,000	935,686 58	55,000
Hudson Bay Jet. Southerly.....	1,088,000	404,542 99	680,000
Flk Point Easterly.....	745,000	605,540 82	135,000
Ashmont-Bonnyville.....	1,415,000	1,191,608 04	125,000
Bretona-Clover Bar.....	319,000	317,529 67	10,000

4. A statement of the three year program provided for this year, including the purchase of existing railways, showing the amount in each case, and the amount estimated to be required for each year?

Answer.

Proposed New Lines.	Estimated Cost
Lake Verde-Pisquid.. . . .	370,000
Sunny Brae-Guysborough.. . . .	3,500,000
Brantford Cut-off.. . . .	1,350,000
Carson Spur Extension.. . . .	185,000
Sudbury Basin Branch.. . . .	1,850,000
Melfort-Aberdeen.. . . .	2,800,000
Central Butte Southwesterly.. . . .	1,800,000
Neidpath-Swift Current.. . . .	1,200,000
Ridgedale Easterly.. . . .	1,100,000
Unity Southwesterly.. . . .	1,750,000
Hamlin-Glenbush.. . . .	1,150,000
St. Walburg-Bonnyville.. . . .	4,212,000
Alliance Southeasterly.. . . .	2,952,000
Bulwark Easterly.. . . .	875,000
Hemaruka-Scapa.. . . .	1,435,000
Swift Creek-Tete Jaune.. . . .	720,000
Lulu Island.. . . .	1,500,000

* Estimates of Expenditures for each of the three years have not as yet been made.

Railways Purchased.	Purchase Price
Inverness Coal and Railway Co.. . . .	\$ 375,000
Kent Northern Railway.. . . .	60,000
{Quebec Oriental Railway.. . . .	
{Atlantic, Quebec & Western Railway.. . . .	3,500,000
(a) Saint John and Quebec Railway.. . . .	6,000,000
(b) Alberta Government Railway.. . . .	7,790,000
Quebec, Montreal and Southern Railway.. . . .	6,000,000

St. John and Quebec Railway

(a) No immediate cash payment, but assumption of Debenture Stock \$2,727,977.40 and balance to be applied in payment at maturity of Provincial Debentures.

Alberta Government Railways

(b) This amount is in cash spread over three payments. In addition there is assumption of \$7,000,000 First Mortgage Debenture Stock and \$2,240,000 First Mortgage Gold Bonds, half of which is applicable to the Canadian National.

The cash payment of \$7,790,000 (the Canadian National share of the purchase price of \$15,580,000) is payable in instalments as follows: \$2,500,000 on delivery of possession, \$2,500,000 on June 1, 1933, and \$2,790,000 on June 1, 1939.

Other Railways to be Acquired

Payment in other cases will be made as provided by the several bills when vendors are in a position to give deeds free of all encumbrances.

Question 5. On the statement filed entitled "Retirement of funded debt six years to December 31, 1928" appears an item under year 1925 entitled Montreal Warehousing Company Bonds \$864,000.

(a) What are the names of the officers of this company.

Answer. (a) Sir Henry W. Thornton, President, Mr. D. E. Galloway, Vice President, Arthur Wilson, Secretary, G. F. Ancrum, Treasurer.

Q. (b) The capital stock of the company, and by whom controlled?

A. (b) Capital Stock of the company is \$236,000 and the company is controlled by the Canadian National Railways.

Q. (c) Has the company been re-organized recently?

A. (c) No.

Q. (d) The total amount of bonds outstanding?

A. (d) Total amount of bonds outstanding in the hands of the public—\$6,000.

Q. (e) The total assets of the company?

A. (e) \$3,785,802.76 as per Balance Sheet December 31, 1928, attached.

Q. (f) How were the aforementioned bonds acquired and for what purpose? and when did the said bonds mature?

A. (f) The bonds were acquired in the open market, as we found it profitable to do so. The bonds in question mature on April 1, 1936.

Q. (g) Are the said bonds in default in any respect as regards interest or principal?

A. (g) No.

Question 6. In respect to the \$40,000,000 borrowed from the Banks as stated in the President's Report on page 8 of the Annual Statement:

(a) When this sum was borrowed from the Banks what arrangement, if any, was made between the Minister of Railways, the Minister of Finance, the Banks and the Railway Company for the financing of the said \$40,000,000?

Answer. (a) The Railway Company agreed with the Banks that the \$40,000,000 in question would be repaid to them out of the proceeds of an issue of securities to be made by the Railway when the time is considered opportune to make such an issue.

Q. (b) Was any special arrangement made for the issue to the Banks under the Finance Act of legal tenders in connection with the said loan, and, if so, how much?

A. (b) No.

HUDSON BAY RAILWAY

Question 1. Were tenders called for construction work on the Hudson Bay Railway during the past three years?

Answer. Yes.

Question 2. How many tenders were received, and what was the figure in each instance?

Answer. Seven. \$1,270,100; \$1,377,700; \$1,388,300; \$1,496,550; \$1,836,150; \$1,855,450; \$1,899,100.

Question 3. If the lowest tender was not accepted please give the reasons?

Answer. Lowest tender accepted.

Question 4. What portion of the work is being done by day labour? Or what portion on a cost plus basis, and if so, by whom is such work being performed?

Answer. Bridges, and culverts, telegraph line, tracklaying, ballasting, rehabilitation, etc., being done by the Canadian National Railway forces. No portion of the work let on cost plus basis.

Question 5. How much money has been expended on the Hudson's Bay Railway in each of the years 1923 to December, 1928, inclusive?

Answer. See attached statement.

Question 6. How much money has been expended at Fort Churchill in each of the years 1923 to December, 1928, inclusive?

Answer. See attached statement.

Question 7. What is the total amount spent on the Hudson's Bay Railway, Fort Churchill and Port Nelson to date?

Answer. See attached statement.

Question 8. What amount is estimated to be required to complete the works and undertaking and make them ready for the shipment of grain and other cargo?

Answer. The amount given as the cost of the completed works by Mr. Frederick Palmer is \$7,860,613. No further estimate has been made.

Question 9. What amount is estimated to be required to provide suitable ships to make an economic demonstration of the Hudson's Bay route to Europe, and how many ships will be required and their estimated cost?

Answer. This aspect of the situation is being given attention, but definite conclusions have not yet been reached.

THE MONTREAL WAREHOUSING COMPANY

Balance Sheet at December 31, 1928

ASSETS

701	Property Accounts..		\$ 352,784 60
706C	Canadian National Railways..		870,723 73
706D	Canadian National Realities..		914,591 44
707	Dominion of Canada Bonds..		1,501,983 58
708	Cash..		7,774 85
715	Accounts Receivable..		14,943 78
717	Interest Receivable—C.N. Realities	\$ 9,940 00	
	C.N.R..	16,972 48	
	Victory Bonds..	16,343 07	
			<hr/>
723	Rent Paid in Advance..		43,255 55
727	Unadjusted Debits—C.N. Realities		336 67
			79,408 56
			<hr/>
			\$3,785,802 76

LIABILITIES

751	Capital Stock—Held by C.N.R..	\$221,100 00	
	“ “ Public..	14,900 00	
			<hr/>
			236,000 00
755	Funded Debt—Held by C.N.R..	\$994,000 00	
	“ “ Public..	6,000 00	
			<hr/>
			1,000,000 00

LIABILITIES—*Concluded*

757	Canadian National Railways Advances.. . . .	1,045 02
760	Miscellaneous Accounts Payable.. . . .	8,994 98
766	Unmatured Interest Accrued.. . . .	10,000 00
771	Tax Liability.. . . .	2,721 32
775	Accrued Depreciation.. . . .	117,313 16
Appropriated Surplus:		
770	Proportion due Minority Shareholders.	152,483 33
783	Proportion due C.N.R.	2,262,687 59
		<hr/>
		2,415,170 92
		<hr/>
		\$3,785,802 76

CHATEAU LAURIER

What has been the total cost of the Chateau Laurier, as shown in the books of the company?

*Question**Answer*

- (a) Cost of land? \$100,000 (1909) for original bldg.
- (b) Cost of old building? \$2,608,000.
- (c) Cost of new wing now being constructed? \$4,671,082.49 spent to March 31, 1929.
- (d) Estimated further amount to complete? \$1,328,917.51.
- \$6,000,000 total cost new wing, including equipment and furnishings, of which
\$5,300,000 is chargeable to capital.
\$ 700,000 is chargeable to operation.
- (e) Cost of equipment, furnishings, etc. \$950,000, which is included in (c) and (d) above.

STATEMENT showing the amount of Expenditure made by the Department of Railways and Canals on the Hudson Bay Railway and Fort Churchill Terminal, fiscal years 1923 to 1928 inclusive, together with Total Expenditure to date on Hudson Bay Railway, Fort Churchill and Port Nelson Terminals.

	Hudson Bay Railway	Fort Churchill Terminal	Port Nelson Terminal	Total
Total expenditure from commencement to fiscal year 1922, inclusive.	14,467,583 89	.. . . .	6,189,989 96	20,657,573 85
Fiscal year, 1923.	40,118 21	.. . . .	27,802 56	67,920 77
" 1924.	322,279 10	.. . . .	24,621 93	346,901 03
" 1925.	294,158 48	.. . . .	2,184 04	296,342 52
" 1926.	173,334 35	.. . . .	18,103 24	191,437 59
" 1927.	2,808,549 31	17,307 46	11,880 91	2,837,737 68
" 1928.	2,674,224 57	880,643 30	364 76	3,554,503 11
" 1929.	3,389,084 88	2,770,478 07	.. . . .	6,159,562 95
" 1930.	297,150 49	22,710 21	.. . . .	319,860 70
(to April 30, 1929)				
Total expenditure from commencement to April 30, 1929.	\$24,466,483 28	\$3,691,139 04	\$6,274,217 88	\$34,431,840 20

Prepared, Audits Branch, Dept. Railways & Canals, 18/5/29.

The CHAIRMAN: I think every member of the Committee has a copy of the proposed final report. Is it the desire of the Committee that I should read the report item by item?

Hon. Mr. STEVENS: I do not want to insist on that, but there are one or two questions I would like to ask.

Hon. Mr. DUNNING: I suggest that apart from the preamble, we might read each section as something might occur to a member of the Committee as we go along. It is rather important.

The CHAIRMAN: (Reading)

THIRD AND FINAL REPORT OF THE SELECT STANDING COMMITTEE ON RAILWAYS AND SHIPPING OWNED, OPERATED AND CONTROLLED BY THE GOVERNMENT

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as its third and final report:

Your committee, to which was referred for consideration and for report to the House the estimates on the Canadian National Railways, the Canadian Government Merchant Marine, the Canadian National West Indies Services, and the Maritime Freight Rates Act requirements, held ten meetings in the course of which it examined sundry witnesses including:—

Sir Henry Thornton, K.B.E., Chairman of the Board and President, C.N.R.

R. A. C. Henry, Deputy Minister of Railways and Canals.

Gerard Rule, K.C., Vice-President of Legal Affairs, C.N.R.

S. J. Hungerford, Vice-President, Operation and Construction Departments, C.N.R.

A. T. Weldon, Vice-President, Insurance Colonization & Telegraph Departments, C.N.R.

R. C. Vaughan, Vice-President, Purchases and Stores Departments, C.N.R.

T. H. Cooper, General Auditor, C.N.R.

H. T. Hazen, Asst. Chief Engineer, C.N.R.

W. U. Appleton, General Manager, Atlantic Region, C.N.R.

S. W. Fairweather, Bureau of Economics, C.N.R.

C. A. Matthews, of George A. Touche & Company, Chartered Accountants.

D. C. Grant, Vice-President, Finance Dept., C.N.R.

D. O. Wood, Acting General Manager, Canadian Government Merchant Marine.

J. P. Doherty, Traffic Manager, Canadian National Steamships.

CANADIAN NATIONAL RAILWAYS

Your Committee has had under consideration Item 336 of the estimates, which provides for loans or guarantees of \$53,750,000 to the Canadian National Railway Company for the year ending December 31, 1929, these estimates having now for the second time been prepared on the basis of the full calendar year. This coincides with the railway fiscal year and avoids overlapping and the tendency to confusion which existed when the annual report of the railway was on the basis of the calendar year and the estimates on the basis of the federal fiscal year.

Your committee desires to point out that the annual statements this year are presented in a modified form, designed to meet suggestions by members of the committee during its deliberations last year. These modifications consist of the inclusion under one cover of the operating results

on the Canadian National Railways exclusive of Eastern Lines, and of the Eastern Lines as defined under the Maritime Freight Rates Act, instead of the presentation of separate reports under separate covers as was done last year.

The annual report itself was divided into three sections as follows:—

1. That containing the result of operations of the Canadian National Railways exclusive of the Eastern Lines.
2. That containing the result of operations of the Eastern Lines as defined by the Maritime Freight Rates Act.
3. A summary showing the income account of the system as a whole including Eastern Lines.

Your committee notes that the operating results for the year 1928 were much more favourable than those of the previous year, due to the larger crop and earlier harvest which permitted a large proportion of the 1928 crop to be moved during that year; the late harvest and inclement weather conditions in the fall of 1927, which threw a larger percentage of the 1927 crop movement into 1928; and to increase in freight tonnage generally, and increase in the average haul, and an improvement in operating conditions made effective during the year.

Your committee called as a witness Mr. C. A. Matthews of the firm of George A. Touche and Company, Chartered Accountants, who for some years, have been engaged in making a continuous audit of the accounts of the company in order to enable them to certify as to the correctness of the consolidated balance sheet and income accounts as presented in the annual report. From Mr. Matthews evidence it appears that Messrs. George A. Touche and Company are entirely satisfied that the accounts as presented are in accordance with recognized practice in railway accounting, and that they reflect accurately the revenues received and expenditures made during the year, as well as additions to capital account.

Your committee gave some consideration to the question of temporary financing. Officers of the railway explained that this temporary financing was strictly in accordance with the provisions of the Appropriation Act, and had been undertaken because market conditions were not favourable to a bond issue. (Such temporary financing had been arranged through the chartered banks of Canada at very favourable rates, and, in the opinion of the railway management, gave no cause for concern.

Sir HENRY THORNTON: I might say that since that was written \$18,000,000 of equipment trust was put out, and the indications seem to be that we are going to have very little, if any, serious trouble during the year and the relatively near future in disposing of the accumulation of temporary financing which we have.

Hon. Mr. STEVENS: Your market is getting better.

Sir HENRY THORNTON: Yes.

The CHAIRMAN: (Reading)

Your committee notes that the estimates for the present year, exclusive of Eastern Lines, amount to \$53,750,000 as compared with \$39,000,000 for 1928. The additional requirements are due to an increase in the amount of capital retirements of Canadian National Railways, Central Vermont Receivership Certificate retirements, and an increase in general additions and betterments due to expanding business. In view of the explanations given, your committee is of the opinion that this amount is necessary for the purpose of the company for the coming year and should be voted by this House.

SELECT STANDING COMMITTEE

CANADIAN NATIONAL WEST INDIES SERVICES

Your Committee also had under consideration Item 338, Loan to the Canadian National (West Indies) Steamships, Limited, whose steamships provide the services called for by the West Indies Trade Agreement. Your committee is informed that there has been considerable competition for this business and a tendency to lower rates, and that the first year's operations may therefore not be quite as satisfactory as anticipated. Your committee is of the opinion that the amount asked—\$945,000.00—is necessary for the requirements of this service and should be voted.

Hon. Mr. STEVENS: There is just one suggestion. Would it not be better to say "Is necessary for the requirements of this service and to discharge treaty obligation"? Is that not a fact?

Sir HENRY THORNTON: Yes, undoubtedly.

The CHAIRMAN: There is no objection to that.

Hon. Mr. DUNNING: It is a fact.

Hon. Mr. STEVENS: What I am getting at is that when you vote the \$945,000 simply for the requirements of the service, it sounds as if we were simply voting the money because it was asked; but it is necessary for this service, in order to discharge our treaty obligations with the West Indies and for the carrying out of our part of the West Indies treaty.

Hon. Mr. DUNNING: The only objection I see—if it is an objection—is the fact that the treaty obligation could be carried out in another way, by subsidizing steamships. I forget the bids we had when we endeavoured to deal with it in that way, but they were higher than this amount, if my memory serves me right.

Sir HENRY THORNTON: It makes a better picture.

Hon. Mr. DUNNING: I have no objection to putting that in.

Sir HENRY THORNTON: I think it makes a better picture. As a matter of fact, it is an absolutely correct statement, because the genesis of this whole thing is the treaty.

The CHAIRMAN: (Reading)

CANADIAN NATIONAL WEST INDIES SERVICES

Your Committee also had under consideration Item 338, Loan to the Canadian National (West Indies) Steamships, Limited, whose steamships provide the services called for by the West Indies Trade Agreement. Your committee is informed that there has been considerable competition for this business and a tendency to lower rates, and that the first year's operations may therefore not be quite as satisfactory as anticipated. Your committee is of the opinion that the amount asked—\$945,000—is necessary for the requirements of this service (in accordance with treaty obligations) and should be voted.

CANADIAN GOVERNMENT MERCHANT MARINE

Your Committee also had under consideration Item 337 of the estimates—Loan to the Canadian National Steamships (Canadian Government Merchant Marine, Limited) to be applied in payment of deficits in operation of the company and of the vessels under the company's control during the year ending December 31, 1929, and capital requirements, amounting in all to \$969,000. Your committee examined the report on operations for the year ending December 31, 1928, and notes that the results have not been quite as favourable as those of the previous year,

due to the highly competitive situation which resulted in the reduction of freight rates in certain directions with a resultant reduction in gross revenues. Your committee also reviewed the balance sheet of the company and notes that the capital structure includes vessels at their original cost, whereas the present day value of this type of vessel is much below that at which the existing vessels are carried in the balance sheet. In view of this your committee is of the opinion that the government should give early consideration to the writing down of the capital structure of the Merchant Marine to a point more in keeping with the present actual value of the vessels. Your committee is of the opinion, on the evidence adduced, that the amount of \$969,000, included under Item 337 of the estimates, is required for the purposes of the company and should be granted by this House.

Hon. Mr. STEVENS: There is just one question I would like to ask Sir Henry Thornton. It is with regard to the Australian service. I notice that advertisements are out by the Trade and Commerce Department for tenders to put on a freight service between Vancouver and Pacific coast points and Australia a service which up to some months ago was carried on by the Canadian Government Merchant Marine. Are you going to tender for that?

Sir HENRY THORNTON: I must admit I have not received that advertisement.

Hon. Mr. STEVENS: I received a copy in the mail from some source, I presume a matter of courtesy on the part of the Department.

Sir HENRY THORNTON: That may be. I have been away so much lately, but I would not be surprised if it had come into the office and been sent to the Merchant Marine for an opinion.

Hon. Mr. STEVENS: If we are paying subsidies, if we can pay them to the Canadian Government Merchant Marine and thus overtake any handicap under which you are labouring, it will be better than to give this to outside companies.

Sir HENRY THORNTON: That is right.

Mr. DUFF: Is there not a subsidy now for Australia?

Hon. Mr. STEVENS: There is the regular mail subsidy. That is, of course, a fast passenger service—a very fine service. There are two vessels, the *Auriniga* and the *Niagara*. Now they are calling for tenders for a freight service.

Sir HENRY THORNTON: It may be that we have not the ships. I do not know offhand. I will have to look into it.

Hon. Mr. STEVENS: Let me say this: it was very deeply appreciated by all the shippers on the coast—the service you did give with these very ships. It seemed to be entirely satisfactory.

Hon. Mr. DUNNING: It was not very profitable.

Hon. Mr. STEVENS: I understand that it was not profitable; therefore it was stopped. Now the government proposes giving a subsidy to someone, and I suggest that it should be to the Canadian Government Merchant Marine.

Sir HENRY THORNTON: Mr. Dunning reminds me that Hon. Mr. Malcolm did say something about it, but I cannot recall it. I will have to look into it.

Hon. Mr. STEVENS: It should be paid to the Canadian Government Merchant Marine, if possible.

Mr. DUFF: If they have the ships.

Hon. Mr. DUNNING: I might say that Mr. Malcolm always does discuss with me and with Sir Henry Thornton and his officers any move which is under contemplation with respect to subsidies.

Hon. Mr. STEVENS: There are one or two things to keep in mind. First, there is the very large quantity of goods going from Canada, particularly from eastern Canada, consisting of automobiles, automobile parts, and machinery of various kinds, being shipped to Australia. It goes across on the Transcontinental lines and it is good business for both the Canadian railways and the manufacturing interests of Canada. Secondly, there is a big lumber business.

The United States government is now subsidizing ships from the Pacific coast to carry lumber to Australia in competition with our British Columbia lumbermen. That is a big business, and naturally we on the coast are anxious to keep all that business that we can, and if by subsidizing, such as the Trade and Commerce Department proposes, or through the Canadian Government Merchant Marine, or the two combined, we can get that service, it will be in the interests of the country at large.

Sir HENRY THORNTON: Sure.

Hon. Mr. STEVENS: I just wanted, while we were discussing that clause, to bring that to the attention of Sir Henry Thornton so that his officers might get in touch with the Department of Trade and Commerce and go into it with some care.

The CHAIRMAN: (Reading)

MARITIME FREIGHT RATES ACT

Your committee has had under consideration Item 340 of the estimates, to provide for the payment to the Canadian National Railway Company, as required by the Maritime Freight Rates Act, of the deficit in receipts and revenues, incurred during 1929, on Eastern Lines, the amount of the estimated deficit being \$4,526,645, and in addition, a sum of \$2,060,000 representing the estimated amount by which the revenues of the Eastern Lines will be lessened during the coming year by the reduced rates granted under the Maritime Freight rates Act in accordance with the recommendations of the Duncan Commission. By reason of the special considerations involved in the Maritime Railway situation, with which the House is familiar, your committee is of the opinion that these amounts are necessary to give effect to the Maritime Freight Rates Act in the operation of the Eastern Lines, and should be granted by this House.

Your committee has also had under consideration Item 339 to provide the sum of \$1,050,000 from which privately owned railways operating in territory covered by the Maritime Freight Rates Act shall be reimbursed the difference between normal tolls and the special tolls provided by that Act. Your committee is of the opinion that this amount is necessary to implement the provisions of the Act in that regard and should be granted by this House.

Hon. Mr. STEVENS: May I go back to the preceding paragraph, the last sentence: "By reason of the special considerations involved in the maritime railway situation, with which the House is familiar, your Committee is of the opinion that these amounts are necessary to give effect to the Maritime Freight Rates Act in the operation of the Eastern Lines, and should be granted by this House." Is that correct? What is necessary to give effect to the Maritime Freight Rates Act is \$2,060,000.

Hon. Mr. DUNNING: The other item is specifically called for by the terms of the Maritime Freight Rates Act.

Hon. Mr. STEVENS: The deficit?

Hon. Mr. DUNNING: Yes.

Hon. Mr. STEVENS: Quite right, one is the 20 per cent reduction and the other is the deficit.

The CHAIRMAN: Are there any comments on the report?

Sir HENRY THORNTON: There is just one other point, which will be probably a matter of comfort to the Committee as it is to myself, that our net earnings for this year are showing a net increase of about 18 per cent over last year. And, having regard to the fact that last year was an exceptionally good year, it will be perhaps a better performance than appears on the face of it. And the indications this year are that the crop for this year will not be a failure. So that I look forward with a good deal more confidence to our financial results for this year than I did three months ago.

Hon. Mr. STEVENS: That is comforting.

The CHAIRMAN: Shall the report carry?

Carried.

Thank you very much, gentlemen, for your attendance and support.

The Committee adjourned.



